The Sensenig Capital
Advisor Letter

May **2015**

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

Are Goals Really Necessary? *– by Carl Sensenig*

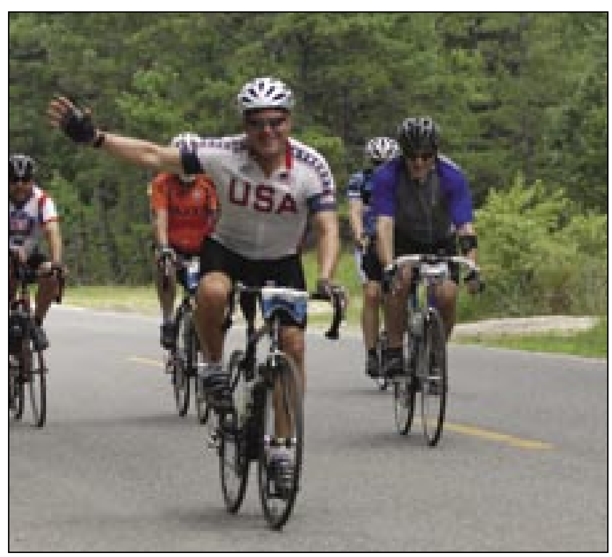
✦ TOPIC ✦
Relationship Management

On the surface, this question often produces yawns or a slightly uninspired reaction. We can agree that life goals of any kind are helpful to our own personal enrichment but depending on the circumstances we sometimes lose interest in them. Recently, I began thinking more seriously about this subject and realized just how beneficial it can be not only to set meaningful goals for ourselves but to also set forth in the important work of actually achieving them.

It requires real effort, with great rewards

As they say, "Oftentimes the journey is more important than the destination." In our business at Sensenig Capital Advisors, goals are featured prominently with many of our clients as we help articulate their objectives and then work together to achieve them. This could relate to funding retirement, paying for a college education, charitable giving, and numerous other financial and life goals. But, I reflect more on the process itself … the actual "work" behind the scenes that typically goes into achieving these worthwhile outcomes. Very often the unanticipated setbacks and the necessary course corrections in midstream can be daunting but the benefits to the goal setter and the feelings of satisfaction associated with achievement are very real.

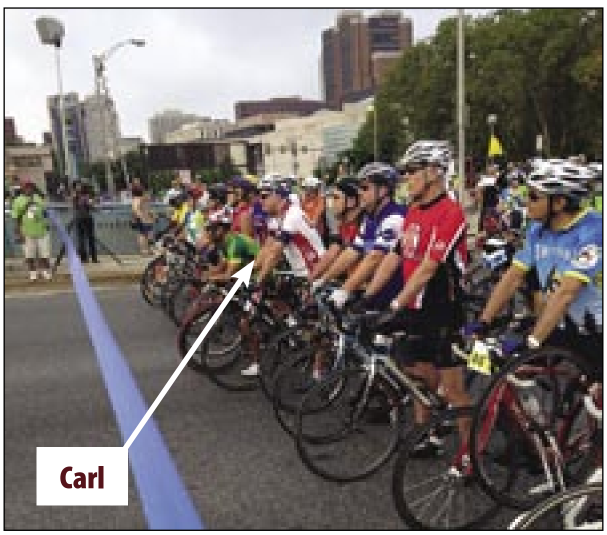
One such area for me in personal goal setting over the past number of years has been with cycling. Not the motor type but the pedaling type. The opportunity to be outdoors and enjoying the physical exertion biking by myself, and with others, has been truly rewarding. After a bout with cancer, followed by successful surgery in 1999, I registered for my first American



Cancer Society Bike-a-thon. The ride spans roughly 66 miles from the Ben Franklin Bridge in Philadelphia to the Southern New Jersey shore area. For someone my age that is a long distance to require some semblance of ongoing physical conditioning.

A little humility can't hurt

Since that time I have been fortunate enough to complete 15 consecutive annual Bike-a-Thon's and a couple of months ago I signed on for my 16th, which is coming up in the middle of June. This is the American Cancer Society's 43rd annual cycling event and each year as fellow cancer survivors and others line up at the base of the Ben Franklin Bridge in Philadelphia, I say a little prayer of thanks for the opportunity to ride



again, for a safe outcome, and maybe a chance to draft other cyclists in order to save some energy during the ride. I'll take all the help I can get!

In addition, if my ego gets out of hand when I have reached or exceeded a time or distance benchmark during the ride there is always ample reason for being brought back down to earth. For example, many times when I return to my hometown in Lancaster County, PA I will see middle-aged Amish women on rusty old 3-speed bikes, in full length dresses, pedaling uphill with a carton of groceries resting on the back fender … seemingly not even breaking a sweat! And here's me with my 24-speed lightweight bike, spandex (yes, sorry), and all the latest biking gear: A humbling experience to say the least.

Articulating incentives helps goal achievement

The initial incentive for me to stay in reasonably good shape and work toward a goal was the cancer diagnosis I mentioned earlier. Today however, the incentive to prepare for Bike-A-Thon ride #16 has been to fully recuperate from hip replacement surgery last September. And this year I will line up at the base of the bridge with a good friend and fellow cancer survivor whose wife lost her battle to cancer just 2½ years ago. The tremendous incentive to put up with the searing summer heat and humidity, as well as tired muscles, is very real when we consider the friends and family members who have sadly passed on from this disease. Not to mention those we know who are currently fighting the battle.

I suppose one such moral to this story would be to do all you can in working toward some good and worthwhile life goal. Do so with humility and with the expectation of inevitable roadblocks along the way. And, if you are given the chance to help others in the process, make sure to embrace the opportunity.

I am hopeful of logging more miles on my road bike this season so if any of our readers have interest in joining me on a recreational ride I would love the company. Feel free to give me a call and we can arrange a time.

In closing, if this cause inspires you to act, consider a donation to the American Cancer Society Bike-a-Thon event. More information can be found at the following website: http://goo.gl/ZGpz57 S

Tax Wise Investing: You & Your Investments

✦ TOPIC ✦
Investment Consulting

While "tax season" may imply that there is an optimal time to think about your income taxes, the best way to minimize your annual "pay-triotic duty" is to engage in year-round tax-wise investing, with ongoing best practices in:

1. Your personal tax-efficient habits
2. Your fund managers' tax-efficient habits
3. Your investment portfolio's tax-efficient management
4. Your advisers' tax-efficient teamwork

You and Your Investments

There are a number of personal habits you can embrace that make for tax-efficient investing. Here are a few to get you started.

Have a plan … and follow it. Investing according to a plan, preferably in the form of a written Investment Policy Statement, makes everything else we're about to describe easier to accomplish. By clearly defining and documenting what you plan to achieve with your investments and how you plan to achieve it, you and your financial team are best positioned to ignore the inevitable, often tax-incurring distractions along the way. A detailed investment plan also serves as your reliable guide for resolving any conflicting priorities when balancing tax efficiency versus other considerations within your overall wealth management.

Avoid hyperactive trading. Bottom line, the more trading you do in your taxable accounts, the more "opportunities" you create to be taxed on the proceeds. The fewer trades that are required to accomplish your investment plan, the better off you're likely to be when taxes come due. (See how that plan is already coming in handy?)

Make good use of tax-sheltered accounts. It stands to reason, the more assets you can hold in tax-sheltered or tax-free accounts such as IRAs, Roth IRAs, 401(k)s, 529 college saving plans and health savings accounts (HSAs), the more opportunities you have to avoid or at least postpone the tax ramifications otherwise inherent in building capital wealth.

> There are a number of personal habits you can embrace that make for tax-efficient investing. ***Ask your advisor how they manage this aspect of your investment assets.***

Inside Your Investments: Not Every Investment Is Created Equal

Next, consider your individual investments. Let's say, for example, that your investment plan calls for holding a diversified mix of domestic and international stocks in your taxable accounts. Unless you're planning to invest directly in thousands of individual securities (which we generally advise against), you will need to choose one or more funds to make up the desired mix. That's where the challenge begins because, ***even if two funds share identical investment objectives, one may be considerably better than the other at tax-efficiently managing its holdings on your behalf.***

It's easy for fund managers and investors alike to ignore this important detail, because not all dollars lost to a fund's tax inefficiencies show up in its published returns. Some of them may show up as annual capital gains distributed to fund shareholders (i.e., you), who must pay taxes on the gains at their individual tax rate – ***whether or not the share value of the fund itself has gone up, down or sideways.***

In his article, "After a Bad Year for Funds Prepare for a Tax Hit," *Wall Street Journal* columnist Jason Zweig reports this particular "gotcha." When a fund that has dramatically plummeted in value is forced to sell highly appreciated holdings to meet shareholder redemptions, all shareholders must then share the burden of paying taxes on those realized gains, even if the fund value itself has declined. Ouch.

To minimize such scenarios and otherwise soften the blow of your fund's taxable trading activities, it's worth seeking out managers who exhibit best tax-management practices, especially for funds that you plan to hold in your taxable accounts. Following are some traits to seek.

Avoid actively trading funds in favor of evidence-based investing. Just as you should minimize your own hyperactive trading, your fund managers should do the same by heeding the academic evidence on how markets operate. Most managers try to "beat" the market by actively picking individual stocks or forecasting when to be in or out of it. Instead, look for managers who are seeking to build lasting value by patiently participating in the long-term growth expected from the return factors being targeted. Evidence-based investing is not only a more sensible overall approach, it also is typically more tax-efficient.

Avoid hyperactive shareholders. As implied above, it's best to invest in funds in which your fellow shareholders are less likely to panic-sell during bear markets. Undisciplined investors may force a fund manager to liquidate appreciated holdings to fund their flight, incurring distributed capital gains that you, as a fellow shareholder, must shoulder along with them. Investors who form personal investment plans, adopt an evidence-based strategy and choose like-minded fund managers to help them implement their plans should be better at retaining their resolve, even during volatile markets. This was evidenced during the 2007–2008 financial crisis; even as countless investors were fleeing the frightening markets to sit on the sidelines, evidence-based fund manager Dimensional Fund Advisors enjoyed investment ***inflows*** – people buying ***into*** their funds – throughout.

Seek out tax-managed funds for your taxable accounts. Some fund families offer versions of their evidence-based funds that are deliberately tilted toward favoring tax-friendly trading over maximizing gross returns with no regard to the taxable consequences. Tax-friendly trading can include practices such as avoiding incurring short-term (more costly) capital gains, and more aggressively realizing available capital losses to offset gains. For additional insights, we recommend reading Larry Swedroe's article, "Start Paying Attention To Tax Efficiency," which describes a study that quantifies some of the costs and benefits of tax-efficient management. S

References:

Reuters, "Ever-selective DFA sees growth in Asia, US 401(k), April 23, 2012. See statement emphasized here: "Booth attributes much of the firm's success to its selectivity. The thinking is that if advisers really buy into the DFA philosophy, they are more likely to ride out the tough years. **DFA has never had a year of outflows, not even during the financial crisis."**

AssetBuilder, "How Dimensional Fund Advisors Really Earn Better Returns," April 27, 2015. See chart comparing mutual fund industry inflows to Dimensional's.

Family Wealth Planning Conversations

TOPIC
Wealth Transfer

It's that time of year again. Spring! A great time of year for families to gather around the ball field, get together for a reunion, or simply sit around the fire pit and share stories. Many would agree that family traditions are the comfort food that nourishes our most satisfying relationships. We'd like to invite you to begin a NEW and important family tradition: family wealth planning conversations.

Family Wealth Planning Conversations?

We consider many of the folks we work with to be "family stewards". Meaning they primarily seek to use their wealth to care for themselves and their family. Therefore, considering family conversations about money are an excellent way to foster a strong family dynamic. At their best, family wealth planning conversations engage every member, each contributing their talents and interests to achieving collective and personal lifetime goals.

That's not to say everyone must participate equally. As we work with families, one individual often emerges as the spokesperson or steward for the group. That's fine … if the role is based on a mutual and deliberately planned arrangement. If it is instead based on unspoken assumptions or force of habit, your family wealth planning may benefit from a fresh conversation.

Even if your family is in full agreement on who is best suited to champion its interests, there's always life's many "what ifs." Are others in your family adequately prepared to assume the stewardship role when and if it is required of them? Might they have unexpressed questions or concerns that are best addressed well before that day may arrive? Carving out time to hold candid conversations is where this important work all begins. In *Lighting the Torch* by George Kinder he writes about the importance of family communication by stating, "It is good to remember that we all respond well to being heard, being understood, being appreciated, and being supported in what touches our hearts in the most poignant way."[1]

A tradition in Jeremy Brenn's family: Spring weekends at the ball field.

An Advisor Can Help Guide This Tradition

To kick off your family wealth planning conversation, consider asking a trusted advisor to be a moderator for the discussion. Perhaps it would be your CPA, your financial advisor, an estate planning attorney that you are close with, or even your insurance professional. For many people, especially business owners, these professionals are almost like family and have helped guide you through important decisions for many years. For example, a firm such as Sensenig Capital can be a great resource toward exploring many key financial matters. The following are important questions to consider, among many others:

- How would each of you define your roles in family wealth planning?
- Are each of you satisfied with your current roles?
- Do all family members have the essential information, should they be required to increase their participation? (For example, do they know how to be in touch with us directly?)
- Are there other questions, suggestions or family wealth dynamics you'd like to explore, either immediately or over time?
- How can a close advisor be a resource to each of you in these and other areas?

We encourage you to think outside the box on this! For example, even though some members of the family may be apprehensive to attend a meeting or conference call such as this, the entire family may benefit for their point-of-view on certain matters. You may well discover insights about one another that could strengthen both your financial conversations as well as your overall family dynamics.

In addition, the role of a trusted advisor can be an important one in family wealth planning. As Roy Diliberto wrote in his book *Financial Planning, The Next Step,* "When clients were asked in-depth questions about their histories, they made their own discoveries about their lives and what was important to them." Diliberto goes on the state, "In order for us [advisors] to be more effective in helping our clients achieve their goals in life, we need to have as much information about them as they are willing to share."[2]

We consider many of the folks we work with to be "family stewards". Meaning they primarily seek to use their wealth to care for themselves and their family. ***Therefore, considering family conversations about money are an excellent way to foster a strong family dynamic.***

It's Not a One-Time Event

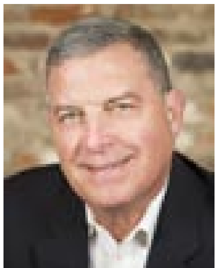
As tradition suggests, consider this a recurring conversation ... perhaps once a year or on whatever frequency is most convenient for each person involved. Regardless of who may be "in charge" of your wealth, the family as a whole is dependent on the outcome of the efforts.

If you are interested in the idea of starting your own family wealth planning conversation please contact our firm or consider reaching out to one of your own trusted advisors. We think you will find great benefits in starting this new tradition. Remember, enabling a forum for everyone's voice to be heard is another way you can achieve your greatest life goals, keeping your family's wealth fresh and meaningful over time. S

References:

1. "Lighting The Torch" by George D. Kinder. Copyright 2006. FPA Press.
2. "Financial Planning, The Next Step" by Roy T. Diliberto. Copyright 2006. FPA Press.

the Sensenig Capital Advisory Team

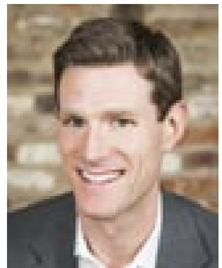


Carl B. Sensenig
President

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 a 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, Board of Trustees of Central Schwenkfelder Church, and Finance Committee of Lower Providence Twp. 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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