



Quarter-End Snapshot

Q4 2018

FIRM UPDATE

from **RICHARD JOYNER, PRESIDENT**



As we start a new year, it's natural to think about "resolutions" - many of us commit to eat better, exercise more, add sleep and spend less - or work on whatever it is that we're trying to improve.

It makes me think about one of my own weekly self-improvement efforts: Monday morning cycling class. The connection may not be obvious, but every week at 5:45 a.m. I find myself sitting on that same bike, trying to get my leg muscles moving and waiting for that all-too-lively instructor to start shouting at us above the music. "Improvements come from tiny changes," she says. "Go just a little faster, add just a little more resistance! Consistent changes deliver huge progress by the end of the year..." and as much as I mumble to myself while I huff and puff my way through class, I think she's probably right.

My instructor's advice, while simple, applies to so much of what we do at Tolleson Wealth Management. Members of our client families sometimes get overwhelmed because of the magnitude of the financial decisions they face. Things can be overly complicated, create risk or require that family members agree on difficult business issues. Indecision sometimes sets in, and progress slows or stops.

I think one of the key roles we play is to help our client families see the path forward. Often all it takes is a few of those small, incremental steps to get things moving again. Because of that, we continue to invest in tools and resources to bring clearer, more timely ideas and strategies. We work to bring you access to critical documents

organized and presented meaningfully, delivered securely. We offer more analytical tools to help you evaluate alternatives and see the outcomes of different strategies. A major step in this effort comes with the roll out of our new wealth management portal. The implementation process has begun and will continue through much of 2019. We'd love your feedback on it.

My wish for you and your family is progress. Progress towards building the family you want, towards training the next generation of leaders and creating the legacy you want to leave behind. Don't forget that it's often those small steps, one by one, that bring long-term, lasting change. And of course, don't forget that we're always here to help.

THE MARKET'S RESOLUTION

from **ERIC BENNETT, CFA, CHIEF INVESTMENT OFFICER**



Now that the holidays have passed, millions of people are working on fulfilling their New Year's resolutions. In order to best set a 2019 resolution for the financial markets, we find it useful to reflect on what has happened this past year.

2018 ended with a bang – one that most investors were not so pleased to see. The U.S. equity markets¹ were up double digits through the first three quarters of the year but spiraled to end down -5% as the wall of worry built up on concerns of slower global growth, peak earnings, tightening monetary policy, trade wars and political uncertainty across the globe.

With all this in mind, investors are concerned with what may lie ahead. Despite the uncertainty, we'd like to see the market focus on its strong economic health in 2019 instead of getting caught up with short-term fears. Wages steadily grew more than 3% with inflation under control at 2%. Lower oil prices should further boost already strong consumer spending. Lower corporate tax rates are expected to further boost capital expenditures. All of this occurred while U.S. equity valuations dropped to more attractive levels after companies experienced record earnings growth of more than 20% in 2018. Despite the current bull market lasting for ten years, none of this seems to add up to what the equity markets seemed to predict over the last three months of 2018: a looming U.S. recession that investors should fear today.

We admit that predicting the future is impossible, and there are many known and unknown risks that lie ahead of us. As a result, we advise our clients to remain invested in their current allocations that were designed to help reach long-term goals. We purposely built portfolios to mitigate downside risk knowing the current uncertainties in the market. While we are wary of focusing on short-term periods, we are gratified to have witnessed the benefits of our portfolio construction recently through actively managed investment strategies that focus on high quality, less volatile stocks and bonds that are less sensitive to rising interest rates and widening credit spreads.

As all of us work hard on our personal New Year's resolutions – the Investment Team at Tolleson Wealth Management is no different. Our 2019 resolution is to continue to closely monitor the market's pulse to help ensure that client portfolios are best positioned for what may lie ahead. While we plan to keep a sharp eye, we feel that the recent short-term volatility is a normal part of a market cycle, and that our current portfolio exposures are adequate to meet the long-term needs of our clients. Please don't hesitate to reach out with any questions that we've left unanswered. Happy New Year and we wish you the best on achieving the goals you've set for 2019 and beyond!

as measured by the Russell 3000 Index

A GIFT TO MY FAMILY

from JOHN C. TOLLESON, EXECUTIVE CHAIRMAN



I can't believe it's been more than 20 years since I sold the business I ran, First USA, and started our single-family office. I was younger then and was excited about the next chapter of my life, but I recognized the fact that my personal financial affairs had just become much more complex and that they were very different than simply running the business that I was used to. I understood that to secure my family's financial future I needed more than just investment management. I needed to get organized. I needed the services of a full family office..

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TAX UPDATE

by *AMY ARMSTRONG, MANAGING DIRECTOR*



As we enter the spring, it is time to begin thinking about the preparation of your 2018 income tax return. The tax law changed substantially at the beginning of 2018 and over the last year the IRS has issued additional guidance to assist taxpayers in interpreting the numerous changes. This spring will be the first tax season where the impact of all changes is truly quantified.

As a reminder, the most significant changes affecting high-net worth individuals are the drop in income tax rates, the elimination of some itemized deductions and an increased AMT exemption amount. There are additional deductions allowed against certain types of business income (i.e., the 20% qualified business income deduction) and potentially some limitations on certain types of business deductions (e.g., business interest expense and business NOLs). Given the wide variety of tax law changes and the number of areas of tax law affected, the actual impact of the new tax law will vary significantly from taxpayer to taxpayer depending on their personal sources of income and expenses.

One obvious change that impacts everyone is the change in the Form 1040 itself – the tax return has a decidedly different look and feel than in prior years. The 1040 is now two, half pages rather than two full pages, and additional schedules with the information cut from the old version of 1040 were created such that the return has actually increased in complexity. While Congress has billed the changes as a simplification of the tax law resulting in a shorter tax form, the opposite is actually true for wealthy individuals.

PHILANTHROPY UPDATE

by *SUSAN JENEVEIN, DIRECTOR*



In line with starting a new year and making resolutions, below are some good giving strategies for 2019 to enhance family philanthropy.

- Life changes family relationships, personal finances and philanthropic passions. We recommend a **review of your estate plan** once a year to ensure your wishes are still reflected in your plans. If those plans include gifts to specific causes, it's a good time ask if those gifts still make sense from your perspective and from the standpoint of the charity. If your plans include the creation of a foundation, it is never too soon to start working with future trustees to prepare them to meet their fiduciary duties and to ensure that the values of the foundation settlors are clearly communicated.
- A hallmark of mature philanthropic giving is **measuring impact**. We have worked with several families to review their previous giving and determine the quantifiable difference their contributions made. Future giving becomes much easier and clearer when you find ways to maximize its impact.
- Many foundations choose **impact investments** to further their mission and values. We believe that returns on these investments do not necessarily have to lower than those on other investments.
- While many families wish to give more, they are often unsure about exactly how much they can give. Our philanthropy team can conduct a **wealth analysis** to discover the best giving strategies for your family. Doing this can allow you to increase your giving while still achieving your goals, especially if there is a cause or organization that you are particularly passionate about.

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