



*Quarter-End Snapshot*  
Q4 2019

*FIRM UPDATE*

from **RICHARD JOYNER, PRESIDENT**



It's hard to believe that 2020 marks our 20<sup>th</sup> year in business, and we've been thinking a lot about how to celebrate such a significant milestone. While a lot of thoughts rush through my head, I keep landing on the numbers that tell our story: 20 years in business, 175 client families, and a team of 180 hardworking professional team members. When I think about the range of services very few firms – single-family or multi-family offices – can deliver, it reminds me that John Tolleson and Eric Bennett had incredible foresight when they started this business in 2000. Who would have guessed that Tolleson Wealth Management would look like this at age 20?

I've been along on this ride for 16 of those 20 years, and our story continues to get better every day. I remind myself, even now, that with the changes we've made, families who have worked with us for 10 or 15 years may not know all the things we can do for them. Sometimes I hear clients say: "I didn't know your bank made loans," or "you can actually serve as a corporate trustee?" Most recently, it's things like "you can help me run a private foundation or research a charity for me?" The answer is yes to all of these questions and many more. Whether it's core services like investing and estate planning, paying bills or doing complex income tax planning, or conducting family meetings

and teaching the next generation of family leaders, Tolleson Wealth Management focuses on delivering not only what your family wants, but what they need. Our mission is to help you sustain and enjoy what you and your family members worked so hard to build and grow.

One of the things I haven't seen in 35+ years of practice is an entrepreneur who works hard to achieve his or her success just so other family members can avoid work, travel lavishly, and spend excessively. Parents want their children to be capable, productive adults who lead meaningful lives, continue to grow the 'family enterprise,' and use their resources for the benefit of their own families and communities. This is precisely why we exist. Every day, we use our accumulated experience, knowledge, and wisdom to deliver results that help families protect and grow their resources for the long term, while preparing spouses, children, and siblings to do the same. Other firms may offer similar services, but few can deliver with the same clarity of purpose. We are a family office, founded by one family and serving others. This mission is what will continue to drive us forward for the next 20 years and beyond.

## A NEW DECADE

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



The year 2019 was an exclamation mark to the end of a great decade for investing in the markets. Although it's been a slow economic recovery, the financial markets bounced back much quicker and stronger than expected. Diversification did not matter much in the end as U.S. stocks, heavily weighted to big technology, were the best performers.

The three largest changes in financial markets in our mind were the:

1. transformation of big technology companies;
2. massive rise in passive and factor investing where algorithms make the decisions;
3. and the growing economic superpower of China.

We believe these trends are unlikely to change, however, we are not expecting the top performers of the past decade to remain on top over the next 10 years. Rather than "joining the bandwagon" and investing along with the masses in today's hot areas, we continue to manage risk and invest in areas that we think have a better investment outlook.

For equity markets, we see great opportunities in foreign stocks, particularly emerging markets, as well as certain U.S. sectors like financials, non-large technology companies, and life sciences. For bonds, we are still able to find investments with attractive yields that are not closely tied to risks we see in corporate high-yield bonds.

It's proven difficult to make accurate predictions of what's to come over any future time period, especially when it comes to forecasting the timing of the next recession. Rather than try to time the market, the key is to have an asset allocation that fits your goals and risk profile while focusing on the long term.

We remain convicted that client portfolios are prepared for what may lie ahead. With this important milestone of celebrating 20 years in business, we thank you for trusting us with your assets and look forward to working with you in this new decade.

## TRIAGE FOR “BROKEN” TRUSTS

from **CHRISTINE FINN, SENIOR VICE PRESIDENT  
AND DIRECTOR OF PRIVATE TRUST**



The use of irrevocable trusts to pass assets to heirs is a cornerstone of multi-generational planning. However, with legislative changes and ever-shifting family dynamics, a decades-old trust document can sometimes feel like it doesn't fulfill its original intent or meet a family's modern needs.

The assumptions regarding irrevocable trust instruments are that families are simply stuck with set provisions for the duration of the trust's term. But, thanks to significant changes made to the Texas Trust Code over the last several years, there are now several options for modifying or terminating these otherwise broken trusts.

### **Judicial Options:**

In Texas, a trustee or beneficiary of a trust may petition the court to authorize a broad range of actions, including changing the trustee, modifying the terms of the trust, directing or permitting the trustee to do acts that are not authorized or that are forbidden by the terms of the trust, prohibiting the trustee from performing acts required by the terms of the trust, or even terminating the trust altogether. In order to protect the trust settlor's original intent, certain grounds must be proven, and specific conditions must be met before a court will issue an order granting such significant changes. Nevertheless, seeking a judicial modification or termination is a powerful and often underutilized tool for addressing dated or flawed planning documents.

## Non-Judicial Options:

It may also be possible to modify or terminate a trust without involving the courts. Some trust instruments explicitly permit a trustee to modify or terminate a trust based on specific circumstances. Conversely, when a trust document is silent on the issue of modification or termination, state law may provide some default tools. For example, in certain instances, the Texas Code allows for a non-judicial modification or termination of trust to be accomplished via an agreement between the trust's beneficiaries and the settlor.

Finally, as a practical matter a trustee may use other methods to accomplish the same result as a traditional trust modification or termination. For instance, a trustee may combine or 'merge' two or more existing trusts into a single trust with favorable terms. Alternatively, a strategy known as "Decanting" permits the trustee to transfer (or "decant") the assets of an existing trust to a newly created trust with modified terms.

## What does this all mean?

Each method discussed above has its own requirements and each warrants a careful case-by-case analysis in order to avoid any adverse tax consequences. With the start of a new year and a new decade, awareness of the strategies can provide tremendous relief for generations to come. Our Private Trust team is equipped to evaluate these situations and our multi-family office approach allows a strategic oversight with one's entire financial picture in mind.

# SUCCESSFUL FAMILIES

from **SUSAN JENEVEIN, DIRECTOR OF PHILANTHROPY**



Research tells us that there is a clear difference between families that survive across generations and those that don't – it's purpose.<sup>1</sup>

What does success look like for your family? Almost all the families we work with want their children and grandchildren to be productive adults, to be good stewards of the family resources, and to love each other. In some respects, wealth can make achieving these goals much more difficult.

Families who successfully meet these goals over 100 years are "centennial" families.<sup>1</sup> That is, they raise generations of self-actualizing adults who steward family business and resources while maintaining family cohesiveness. A key element found in this new and exciting research is that healthy longevity relates to social

impact. Centennial families are not only expressing support and gratitude for the communities in which they live, but they are creating and operating within a family system that produces great health.

It's not just the gratitude. It's the governance: the meetings, the stated rules around conducting business, the communication skills, the practice of compromise, the focus on others, and the expectation of meaningful contribution. It's the example from one generation to the next modeling all these disciplines.

Philanthropy is not only an additive practice, we see it a practice that should be integrated for personal, family, and even financial health. As the African Proverb says, "If you want to go fast, go alone. If you want to go far, go together."

## Q&A WITH MATTHEW LINDENBAUM

We talked with Matthew Lindenbaum, the founder and portfolio manager of Basswood Capital Management. Matthew has 30+ years of experience investing in the financial sector.

**Question:** If you meet someone at an airport and they ask what you do for a living, what's your answer?

**Answer:** My wife tells people that I read for a living because I'm always reading a book, article, or financial report. I'm an investor, not a trader, and for me that means I'm looking to understand what's really going on with a company; I'm trying to cut through the bull to get to the truth. Without getting too detailed, I look for situations where there is a gap between the price of a company's stock and its true value. In order to find the true value of the company, I try to figure out the present value of the company's future cash flows. In order to do this, I need to understand the macro environment, the industry dynamics, the competitive landscape and the company itself. Over time I expect the gap between the stock price and the company's true value to close as the market better understands the company or becomes less worried about near term issues.

1

**Question:** What was it like to be a portfolio manager that invest in bank stocks during the financial crisis of 2008?

2

**Answer:** As I mentioned earlier, we are investors and we focus on finding cheap stocks to own. In 2006, finding cheap stocks in the financial sector became increasingly difficult because valuations were so high. As a result, we shut down our financial fund and returned the money to our partners. We didn't predict the financial crisis - our view was that the asymmetry in valuations was to the downside and the risk/reward was unfavorable. This will undoubtedly happen again in the future.

**Question:** How long have you invested in the financial sector?

3

**Answer:** I've been doing this with my brother for 30+ years. We've been through crashes and banking crises and we've learned a lot about investing. The most important part of this experience is the mistakes we've made in the past and the lessons learned from them. You learn nothing from success, but a lot from failure if you can honestly and objectively evaluate your decisions.

**Question:** Over the last five years, your portfolio has annualized at 16%. Do you believe the opportunity set is as good today as it was five years ago?

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**Answer:** The opportunity set today is comparable to the one in 2015, but the composition is different. Five years ago, the opportunity set included more regional and large banks. Today, the bank opportunity is more concentrated in smaller banks because the larger ones have appreciated significantly. Also, today we have more exposure to homebuilders and finance companies. We also see a significant opportunity in select international banks in Europe and the U.K.

<sup>1</sup>From Dennis Jaffe, PhD, and research article, "Social Impact in Hundred-Year Family Businesses: How Family Values Drive Sustainability Through Philanthropy, Impact Investing and CSR."

The views and opinions expressed in the Q&A are the author's own and may not necessarily reflect the view of Tolleson Wealth Management.

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