TOLLESON
WEALTH MANAGEMENT

Quarter-End Snapshot
Q3 2020

FIRM UPDATE

from **CARTER TOLLESON, CEO**

As we all continue to navigate this strange environment, Tolleson Wealth Management remains fully focused on your family.

It has undoubtedly been a very strange and sometimes difficult year. I am extremely pleased with how well the firm has performed, which in large part is due to our amazing, resilient employees as well as our strong culture. Because we have such a strong foundation, we are ready and willing to take advantage of opportunities created by the the pandemic. This is a chance for us to become nimbler, embrace change, rethink how we work, and, most importantly, how we can better serve our clients.

The foundation of our business remains deeply rooted in our core values and beliefs, which is a key reason why we have flourished this year. This year has allowed us to re-emphasize our foundational tenets, our purpose, and our mission to serve. It's also been a year of deep reflection and has given us a chance to look at everything we do and ask ourselves, "How can we do it better? How can we better serve our client families in every aspect of our relationship?"

Communication channels have expanded and adoption of new technology is very high. We have leaned in and embraced the "new normal" by heavily focusing on and investing in our digital ecosystem. We believe it is the right time to marry the service you've become accustomed to with the digital expereince. As we mentioned in the last update, enhancing the client experience is so important to us that Royce Ramey has taken on the role of Chief Experience Officer to manage everything from your digital experience to your office experience.

As we move forward into the new normal, it's important to know that our focus on our client families is unwavering. Our commitment to enhancing your experience and providing the best service we can has never been stronger.

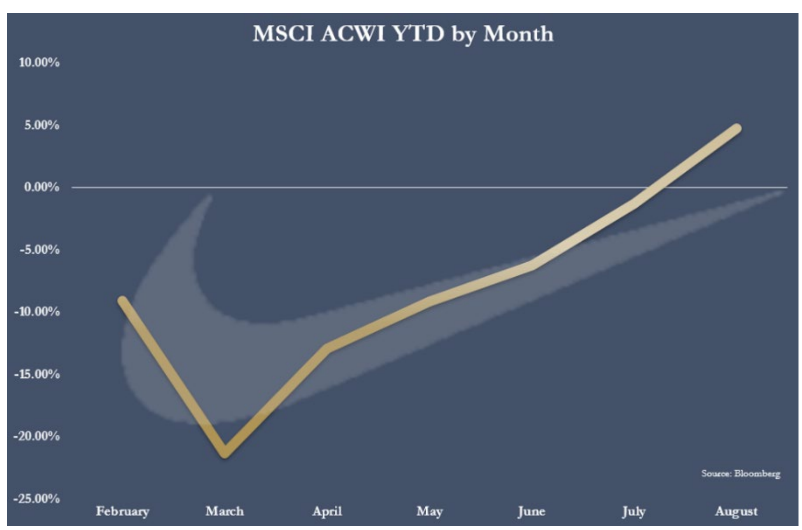
Thank you for your confidence in us throughout this unprecedented time. We can't wait to see you!

NIKE, APPLE, AND CLINTON

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

The Nike Swoosh, $5 Trillion Apple, and Bill Clinton.
How do these relate to your investments? Let me explain:

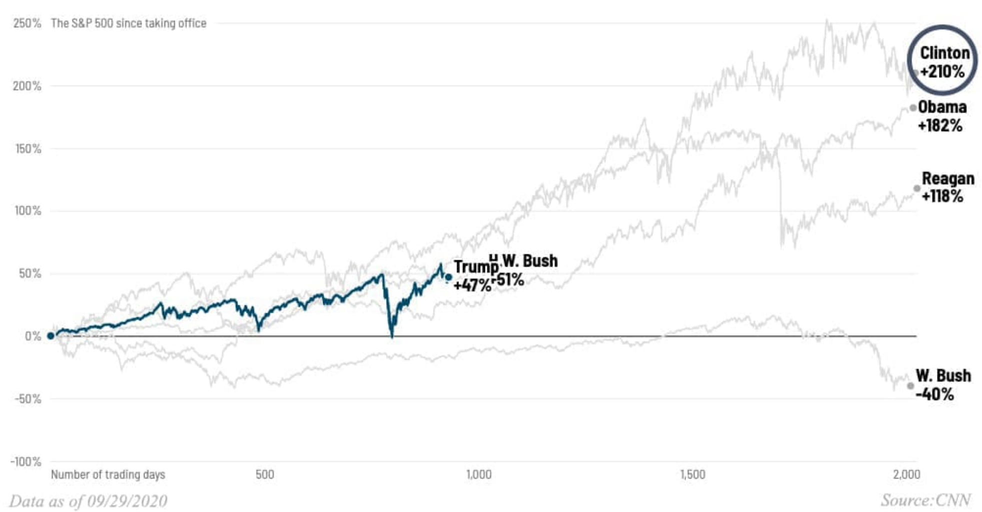
The Nike Swoosh is what the stock market recovery looks like so far this year, which has been a pleasant surprise. Global stocks were down more than 30% early this year but have fully recovered and are now up almost +5% this year.



The recovery is quite remarkable considering we are still living and working in the midst of a pandemic. The government's massive fiscal and monetary support as well as the economy dropping lower than expected and recovering faster than predicted have been the key contributors to this remarkable performance. The bottom line is investors today have slowly regained confidence.

$5 Trillion Apple: Big Tech (Apple, Microsoft, Amazon, Google, and Facebook) have been the largest contributors to performance for US stocks this year and over the past three years. It is human nature for many investors to believe that past outperformance will continue; however, this philosophy has been proven false time and time again. These are great companies making huge profits, but will these stocks continue to outperform in the future? I will suggest that the drivers of these returns over the past three years are not necessarily what will drive them forward over the next three years. Today, the market cap of Big Tech is around $7 trillion, which is larger than all the stocks in the UK, Germany, and Spain combined. Apple alone is worth almost $2 trillion. These valuations are hard to wrap your head around – not billions, but trillions! If Big Tech stocks appreciate at the same pace in the next three years as they have in the past three years, the companies will be worth collectively almost $16 trillion; Apple alone would be worth almost $5 trillion! The past performance could continue, but we believe diversifying your investments beyond just these near-term winners is the best approach looking forward.

Lastly, Bill Clinton. Today, we face an election many are calling the most important since 1932, when Franklin D. Roosevelt bested incumbent Herbert Hoover in the midst of the Great Depression. Like then, there are many issues at stake with the upcoming election, but two on investors' minds are business sentiment and an increase in tax rates. In 1992, Bill Clinton was elected president following two Republicans: Ronald Reagan and George H. W. Bush. So, what happened when Clinton was President? Taxes were raised on the wealthy, but we also had the best stock market performance of any president in modern time:



I make this point because presidential elections likely have less of an impact on investment performance than many people may think (or fear).

In conclusion, although the financial markets and economy have recovered well in the third quarter, we believe the investment markets still have higher than normal uncertainty in the short-term. We have made many portfolio changes in 2020 to address the risks and new opportunities resulting from COVID-19, in addition to the long-term themes we implemented at the start of this year that became even more attractive due to COVID-19.

CLIENT EXPERIENCE

from **ROYCE RAMEY, CHIEF EXPERIENCE OFFICER**

Over the past 20 years, throughout your input and needs, we have continued to evolve Tolleson Wealth Management's robust platform and take care of all things financial for client families. As we prioritize our initiatives over the next three to five years, we are excited to launch a process that provides each of you an opportunity to help shape what your family office looks and feels like for the future.

The process consists of three main phases:

1. Carter Tolleson, Richard Joyner, and I will meet with clients in small focus groups (socially distanced or virtually) to gather feedback about the services you utilize and how we can enhance the experience for you and your family.
2. The team will aggregate the feedback from the focus groups, prioritize emerging themes, and report back to you our goals for the coming year(s).
3. We will then aim to establish a Client Advisory Council that meets two to four times per year. The Council will receive updates on the business, progress on firm initiatives, and provide ongoing feedback on our progress and how you, the client, experience the service and advice you receive.

We are very excited to embark on this collaborative process with you!

If you are interested in participating, please do not hesitate to reach out to your advisor.

TAX UPDATE

from **AMY ARMSTRONG, MANAGING DIRECTOR OF TAX**

Both presidential candidates have discussed substantially different tax plans leading up to this year's election.

If President Trump remains in office, he will likely make the current tax law permanent. If Joe Biden wins and the Democrats win control over the Senate, some of the proposed tax law changes in his plan could have significant long-term effects on wealthy families which presents planning opportunities.

Below are a few of the proposed changes in the Biden Tax Plan:

- **Increase individual income tax rates** – Maximum tax rates on ordinary income increase from 37% to 39.6%, and tax rates on long-term capital gains increase from 20% to 39.6% once income exceeds $1,000,000.
- **Repealing step up in basis –** Currently, assets transferred at death receive a step up (or step down) in basis to fair market value. Under the Biden Tax Plan, assets will be transferred with a carryover basis.
- **Decrease the estate exemption amount –** The 2020 estate exemption is $11.58 million per individual. The Biden Tax Plan will reduce the amount of the exemption leaving more assets subject to estate tax.
- **Increase the estate tax rates –** The current estate tax rate is 40%. The Biden Tax Plan contemplates graduated rates higher than 40% based on net worth at death.

No one can say with certainty when Biden, if elected along with a Democratic House and Senate, will finalize any tax law changes. Would the new tax plan take effect prospectively or apply retrospectively to Jan. 1, 2021? After a review of historical precedents and other stated Biden policy agenda items, it is our view that these changes will likely not be finalized before next summer at the earliest.

Please click here for a more in-depth discussion of potential tax law changes and planning opportunities to consider given the upcoming elections and current economic environment.

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