The Tinnerman Wealth Brief

Summer 2016

Summer is finally here again and its arrival coincided with much excitement in financial markets as the U.K. voted on June 23rd to leave the European Union. Immediately following the vote, the European political elite which was clearly incensed with the U.K. electorate, let loose with a volley of dire prognostications that sent global currency, equity, and fixed income markets reeling. Similar to what happened in many equity markets, the S&P 500 fell a sharp 5.76% to 1991.68 immediately after the Brexit vote and then rose by a similarly sharp 5.4% to stand at 2098.94 on June 30th.

We were (and we remain) of the opinion that the Brexit vote would be of little consequence to financial markets in the broader scheme of things and, in the end, we turned out to be correct in our view. But the fact is that we do not have a crystal ball and we had no idea as to how things would turn out after the vote. We do not have any idea as to how things will evolve in the years ahead, and it remains entirely possible that Brexit could still do more than just humiliate the bureaucrats in Brussels. The only thing that we do know is that we will be indifferent regardless of what ultimately happens in the financial markets because of changes in the European Union.

Our indifference does not come from either confidence in the abilities of policy makers to make astute decisions or from confidence that markets will not experience significant dislocations as a result of future policies. It comes because we manage the investment portfolios of our client families using a disciplined investment approach which is agnostic when it comes to the consideration of macro-economic influences.

As we have written many times, our investment philosophy focuses on finding better businesses which we define as having: (i) simple and easy to understand business models; (ii) strong balance sheets; (iii) revenues and dividends which are predictable and sustainable; and (iv) a proven ability to generate above average returns over the long term. We are confident that these better businesses will flourish over the long term regardless of what happens in the short term. This gives us the confidence to be indifferent to market behaviour. That being said, we will take advantage of any opportunity to purchase shares during times of market weakness as buying better businesses at attractive prices provides both a margin of safety, as well as increasing potential investment returns.

We have followed this investment philosophy for many years now and, while it looks pretty simple in theory, it is not that simple in practice. In the first place, there are simply not that many better businesses out there, so it takes a lot of time and hard work to find these true investment gems.

Let's connect

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And second, it takes a lot of patience and discipline to ignore the near-term distractions such as Brexit, which tend to dominate the discussion around investing in the financial markets.

Looking back, the tenure of the Tinnerman Wealth Group includes having managed the investment portfolios of our client families through the Black Monday market crash of 1987, the bursting of the late 1990s technology bubble, the financial crisis of 2008-2009, and innumerable smaller market events like the gulf war and, most recently, Brexit. While all of these market events were unique as to their cause, depth, and duration, there was a common element for our client families which was our disciplined investment approach.

With this in mind, we decided to evaluate the investment portfolios which we in the Tinnerman Wealth Group have been managing on behalf of our client families for the past 20 years, ending December 2015. In short, the performance of these portfolios has been very good – especially in comparison to our benchmark, which is comprised of an equal weighting in the TSX Composite Index and the S&P 500 Index (in Canadian dollar terms). Over the past 20 years, the benchmark has generated a compound annual return of 3.57% whereas our typical client family portfolios have generated compound annual returns of between 10 and 11 percent.

As we have often noted, we do not employ a one size fits all approach to investment management like mutual funds and other pooled products. We tailor our portfolios to meet the specific objectives and (importantly) risk tolerances of each of our client families and our performance results are, consequently, always unique. In this regard, the compound annual returns of our client families over the past 20 years have ranged between 17.28% at the high-end and 7.57% at the low end, or roughly twice the benchmark return of 3.57%!

Although we are admittedly quite pleased with the strong performance of our clients' portfolios, we believe that investment returns are of secondary importance when it comes to the successful management of family wealth. We recognize that this view is markedly different from the financial services industry at large which tends to focus on performance and other quantitative aspects of wealth management. It is our contention that it is the qualitative aspects of wealth management which will ultimately be the most important factor for success – hence the reason why our summer letters have always had wealth planning as their focus.

From my perspective, summer vacation is the perfect time for contemplating wealth management plans.

It is a natural starting point in the family cycle as the old school year is finished and the kids are establishing their educational, extracurricular, career, and community plans. I am always more relaxed and open to new ideas when I am on vacation and, most importantly, I have lots of free time to spend with my family. With regards to the last point, I have found that it is only after the family has spent a couple of long days together that true goals, plans, and aspirations come to light – and can be later contemplated in our family wealth plan.

In our past letters we have typically focused on issues and strategies which are common to all families including education funding, tax planning, wills, trusts, insurance, powers of attorney, estate plans, gifts, and lending. While these issues provide the building blocks for a sound wealth management plan, they do not encompass the executional considerations that are critical for family success. Insofar as it is important to use vacation (and other) time spent with the next generations to learn from them, it is equally important that they learn from you, especially about the family and its values and experiences.

Absent sufficient family knowledge, it will be next to impossible for the next generation to successfully implement their family's wealth plans, simply because will they lack proper context. There is good reason why so many cultures around the world have their own versions of the proverbial saying "Shirt sleeves to shirt sleeves in three generations". We all know of families where this saying would be apt and it is something that we would desperately like our own families to avoid.

In our most recent letter, I wrote that I want my kids to take over the family – not take from the family. This goal can only be truly achieved when the next generation understands and has internalized the experiences and stories which have shaped their families and explain how they have gotten to where it is today – also known as their "Emotional Inheritance". This transfer of knowledge is a critical issue which is unfortunately overlooked by the financial industry because (i) it is unique to each family and so cannot be addressed with "robo-services"; (ii) it is time consuming because it has to be done in consultation with the entire family; and (iii) as with many family issues, things can get complicated and messy.

Unlike many of our professional peers, we are not easily deterred and so we in the Tinnerman Wealth Group have for some time now been working to help our client families address the issues associated with preparing the next generation for their coming responsibilities (i.e. emotional inheritances). Unfortunately, given the general lack of interest in this field, it was a bit of an ad hoc effort until fairly recently. After doing some research on the leaders in this area, I enrolled in the Heritage Institute which is headquartered in Oregon.

I have been pursuing the designation of Heritage Design Professional which will certify me to help the clients of the Tinnerman Wealth Group prepare their families for their emotional inheritances. In our view, this is a giant leap forward for both the Tinnerman Wealth Group and our client families. We are able to help you develop a wealth management plan for your family and to help you provide the next generations of your family with the skills that they need to make your family wealth management plan a success. It is a very exciting prospect and I hope that you share our enthusiasm towards this new initiative.

In closing, I trust that you find this letter of benefit to you and your family, and I would ask that you please call us if you have any questions or concerns relating to your financial and emotional inheritance plans. As always, please do not hesitate to give this letter to friends or family that you think might benefit from our unique perspectives on family wealth.

Sincerely,

Mark Tinnerman

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Portfolio Manager

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Tinnerman Wealth Group

**Both Associate Portfolio Managers and Portfolio Managers can offer the BMO Nesbitt Burns Managed Portfolio Account to clients. For simplicity, we have used the term "Portfolio Manager". Bank of Montreal or its affiliates may act as a lender or provide other services to certain of the corporations mentioned herein and may receive remuneration for the same.*