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Mid-Third Quarter 2018

### **A Word from the Editor**

*By Kit-Victoria (Weil) Wells – Culture & Communications Officer*

In any given quarter, myriad financial issues are discussed, dissected, researched, and chronicled at CWC. Topics are inspired by client needs, evolving markets, changing economic conditions, political change, and general curiosity. For those of you who have visited our office, you know we work in an open platform, facilitating information-sharing, transparency, collaboration, and the occasional lively debate.

Our mid-quarter newsletter provides an opportunity for us to share some of the timelier and more frequently queried issues discussed across our platform. In this installment, Tyler Hewes, CWC advisor and licensed insurance agent, provides perspective on the importance of periodic insurance reviews. Matt Weil, CWC advisor and head of our venture capital/private equity division, partners with CWC portfolio manager Mike Hubbert to examine our active management philosophy.

CWC's team of financial and investment professionals stands ready to assist you in navigating your financial life. Please feel free to reach out to us at any time.

### **The Importance of Periodic Life & Disability Insurance Reviews**

*by Tyler Hewes, CFP®*

Though it may sound cliché, change is an inevitable fact of life. Circumstances shift, sometimes gradually, sometimes dramatically. Accordingly, periodic life and disability insurance reviews are a vital component of prudent financial planning, ensuring that policies continue to provide coverages appropriate to the heirs.

A comprehensive insurance review includes the exploration of a few fundamental questions:

- **Do I still need this policy?**  
Do the beneficiaries of this policy still need the protection if something were to happen to you?
- **What is the health of the policy?**  
Is your policy at risk of losing its value and/or not meeting the intended goals? Changes in interest rates may be causing older policies to underperform, possibly placing your objectives in jeopardy.
- **Have my beneficiaries changed since I purchased the policy?**  
Do you need to add or remove beneficiaries? Is the beneficiary arrangement – either to individuals or trusts – still optimal based on the current tax code?
- **Are my needs or the needs of my family/business changing in the near future?**  
If something were to happen to you today, would the protection provided by your current policy require your heirs to change their lifestyle or modify their long-term goals? There has been a great deal of premium-compression in the industry, allowing people to buy more protection for the same premium, or pay less, than they were previously paying.
- **Do I know all the details about each policy?**  
This includes the premium, the death benefit, current beneficiaries, owner, and contact information.

Because we understand their importance, periodic insurance reviews are an included service in every CWC advisory relationship. Please feel free to reach out to us with questions.

## Why We Are (Mostly) Active Managers

*By Michael Hubbert, CIMA<sup>®</sup> & Matthew Weil, JD*

Googling the words “active vs. passive investment” turns up hundreds of articles exploring the differences between the two investment approaches. It’s a nuanced subject that we (as active managers who sometimes use passive investment vehicles) are always thinking about, and we want to share some of that thinking with you. This article will be an introduction to the topic. For those willing to get deeper into the weeds, we will explore additional facets of this topic in a future newsletter.

Any discussion of “active” versus “passive” investing should start with the observation that there is ***no such thing*** as completely “passive” investing. Even if we were to invest our own money and our clients’ portfolios exclusively in passive, index-based funds (and exchange traded funds), we would have to decide what index(es) to use. “Passive” investors must still asset allocate: decide what size issuers and geographic locales – and, possibly, what economic sectors and company types (growth versus value) – to include in their portfolio. Passive fixed-income investors would also need to consider bond quality and duration. Active decision making about asset allocation will materially impact investing outcomes, whether dollars are invested in passive vehicles, actively managed funds, directly in stocks and other securities, or a combination of these approaches.

In addition, it is important to bear in mind that not all indexes are created equal. Some stock indexes, for example, are “capitalization-weighted” (give greater weight to bigger companies and less to smaller ones), and some are “price-weighted” (favoring companies with higher stock prices). Others use different weighting schemes. Some indexes are strictly rule-based, but most are driven by a combination of general guidelines and human judgements regarding which securities “should” be included in the index and which “should not.” And on top of that, there is variation among the funds that purport to track any given index. Some own the underlying stocks, but some do not; they can differ in liquidity, tax-efficiency, fees, and other attributes.

The past decade or so has seen a massive flow of funds into passive equity investments. The percentage of assets under management in passive funds more than doubled between 2005 and 2018, from about 15% to near 40%. This growing popularity has been largely driven by the relatively lower management fees charged by most passive funds. When we consider whether and how much to invest in passively versus actively managed funds, however, we consider factors in addition to fees, including which approach will best meet the needs and expectations of a given client and which approach is likely to give the best risk-weighted return (net of fees).

Being active managers – using both active and passive investment vehicles – allows us to overweight or underweight particular styles or sectors as circumstances warrant (not least when markets appear to be overheating). It also allows us to make the bet that we (or the fund managers to whom we allocate) may, over a full economic cycle, achieve at least average, and sometimes better than average, returns. (One strategy we employ to this end is to favor value stocks. Another we are employing now is to invest in international and emerging markets where we see potential for appreciation over the medium and long term.) Being active managers, we can also do certain things that indexers cannot do (or cannot do as well): we can manage with the aim of dampening volatility (making market swings more palatable for our clients), we can retain flexibility to help manage the tax consequences of investing, we can take advantage of mis-priced assets, and we can help hedge against the risk that a client needing cash will have to sell positions he or she doesn’t want to sell.

Still, for the right investor and right portion of a portfolio, passive investing can be a way to save on fees. More on this, and a deeper dive into some of the pitfalls of passive investing, in the next edition of our newsletter.

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