The Sensenig Capital
Advisor Letter

December 2013

Providing clients with peace of mind, through smart financial decisions.

Wise Money Management – A Priceless Gift

✦ TOPIC ✦
Relationship Management

"Give a man a fish; you have fed him for today. Teach a man to fish; and you have fed him for a lifetime." Most of us have heard this famous quote before and it is oftentimes very true. With that in mind, the gift giving season is upon us and perhaps one of the most valuable gifts you can give to your children is teaching them good money management skills. It's not always an easy job, and the skills can take years to instill, but the lifelong benefits can be immeasurable. So, as you relax and enjoy the holiday season take some time to ask yourself a very important question: You taught your kids how to read and how to ride a bike, but have you taught them how to manage money?

One study of college undergraduates found 60% of credit-card holders experienced surprise when told how high their balance had reached—and 40% admitted to charging items they knew they couldn't pay for.[1] For current college students, it may be too late to avoid learning the hard way. But if you still have children at home, save them (and yourself) some heartache by teaching them the basics of smart money management. The following are a few tips to get you started.

Have the conversation

Many everyday transactions can lead to discussions about money. At the grocery store, talk with your kids about comparing prices and staying within a budget. At the bank, teach them that the automated teller machine doesn't just give you money for the asking. Show them a credit card statement to help understand how "swiping the card" actually takes money out of your pocket.

> ***One of the most important things that you can teach your children*** about money has to do with the ability to delay gratification.

Many of the clients we work with own and manage their own small business. If you are a business owner and have young children, explain to them the importance of why a buyer and a seller exchange money for a product or service and how it's vital to the success of your business. If your children are college age or older, consider allowing them to work alongside you for a period of time so they become aware of what it really takes to manage a successful business from a financial standpoint. Not only will they acquire valuable money management skills but they'll also learn the importance of hard work.

Keep in mind that every parent has a unique outlook on how to manage money based on personal experiences, family history, and a good dose of common sense. Therefore, there is really no right or wrong way to help your kids learn about this topic. However, here are a few suggestions.

Jeremy Brenn's little savers. . . (L to R) Ryan, Sean, and Kevin with their piggy banks.

Let them live it

For younger children, an allowance program where payments are tied to chores or household responsibilities can help teach them the relationship between work and money. Your program might even include incentives or bonuses for exceptional work. For teenagers, you could create a budget for clothing or other items you provide. Let them decide how and when to spend the allotted money. ***This may help them learn to balance wants and needs at a young age, when the stakes are not too high.***

Teach kids about saving, investing, charitable giving, even retirement planning. ***One of the most important things that you can teach your children about money has to do with the ability to delay gratification. Children who know they've made good long-term decisions develop a strong self-esteem.*** To encourage this behavior you might offer a match program for your teenager or pre-teen, say 25 cents for every dollar they put in a savings account. Once they have saved $1,000, consider helping them open a custodial investment account or a 529 college savings plan, then teach them to research specific investments. Our firm can help in this area by taking the time to talk with you and your family about the basics of sound investing. And of course it is never too early to teach the importance of giving, even if only in very small amounts, to any number of very worthy charities. For those of you who like to think even longer-term, you might discuss opening an individual retirement account (IRA). Some parents even offer to fund an IRA for their children as long as they are earning a paycheck.[2]

It's a process

Try not to get discouraged if your kids don't eagerly take your advice. Mistakes made and lessons learned at this stage in life can leave a lasting impression. Also, resist the temptation to bail them out. We all learn better when we reap the natural consequences of our actions. Your children probably won't be stellar money managers at first, but what they learn now could pay them back later in life—when it really matters.

Teaching your kids about money management isn't easy. If you are a client of Sensenig Capital, consider reaching out to us for resources and tools to facilitate the learning process. Our expertise and objectivity is always available to you and can be valuable assets as you work to empower your children to become wise money managers. S

---

1. Salliemae.com, 2012 (Initial study published in 2009.)
2. Contributions to a Traditional IRA may be fully or partially deductible, depending on your individual circumstance. Distributions from traditional IRA and most employer-sponsored retirement plans are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 70½, you must begin taking required minimum distributions.

Dancing on the Ceiling

✦ TOPIC ✦
Investment Consulting

Investors have grown weary with the periodic debt showdowns in Washington, each one miraculously resolved at the 11th hour. Some are asking whether they should wait in a safe harbor until "certainty" returns.

In the fourth such showdown between the White House and Congress over public funding in less than three years, the US federal government was shut down for 16 days in October and hundreds of thousands of federal workers were furloughed.

Congress finally came to a deal just one day before the US borrowing authority was due to lapse. The agreement prevented a potential default on US debt. But it provided only another temporary fix, funding the government until January 15, 2014, and raising the debt ceiling only until February 7.

What's the answer for investors?

Most people around the world are rightly worried about what the political controversy means for their long-term investments and ability to fund their own retirements.

The answer is that uncertainty is part and parcel of investing. You can never eliminate it simply because no one can ever be sure about the future. Tying your investments to an opinion about the outcome of the US fiscal situation or the euro zone or any other flash point in the news is a recipe for madness.

One advisor in recent weeks had to allay the fears of a client who was asking whether it made sense to switch a significant proportion of his retirement investments to cash until the situation in Washington "settled down." The downside was slightly lower returns, but this was protection against a potential catastrophe.

The advisor responded by saying that maybe this was a good idea, but would one month be enough? Perhaps the client could wait a year or so. That might be sufficient time for the situation to be resolved. But what if it weren't?

Perhaps, he said, a better idea might be to examine more closely the crises of recent decades and the long-term impact they might have made on his portfolio—such as the oil crisis of 1973, Japan's bust in the early 1990s, the Asian currency crisis of the late '90s, the tech wreck in 2000, and so on.

Without wanting to downplay the real pain that these crises caused—in both financial and human terms—the advisor asked his client what, in retrospect, he could have done to spare himself their worst effects. Beyond, of course, diversifying his portfolio, rebalancing occasionally, and keeping his own long-term needs in mind.

> Investors have grown weary with the periodic debt showdowns in Washington ***. . . some are asking whether they should wait until "certainty" returns.***

What if he had "waited out" the aftermath of the 1987 Black Monday crash? When would he have gotten back into the market? Was there an obvious re-entry point when Thailand, Indonesia, and South Korea came off their currency pegs in 1997-98? What expertise did he (or his advisor) have that would have gotten that timing right?

Focus on what you can control

Back to the present. While newspapers wrote thousands of words and TV stations aired hours of coverage about the latest debt ceiling showdown, many equity markets around the world have reached record or at least multi-year highs.

This is not to assume smooth sailing in the future. But, as investors, we need to acknowledge that living with short-term uncertainty is the price we pay for the premium we receive by putting our long-term capital at risk.

Crises will come and crises will go, as we have seen. Politics is, by definition, about the conflict between different ideas and values. Each of us can have an opinion about likely outcomes. But we can do ourselves a disservice if we base our investment decisions purely on forecasts about politics, economics, or anything else.

Keeping your investment feet grounded in your own life circumstances and needs is preferable to dancing on somebody else's ceiling. S

Source: Jim Parker, a vice president with Dimensional, is another of the firm's in-house research experts. As a vice president in the Communications group in Sydney, Australia, Jim Parker presents strategies to communicate Dimensional's philosophy and process in ways that engage clients, prospects, regulators, and the media.

Diversification does not eliminate the risk of market loss. General investment risks include loss of principal and fluctuating value. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks.

Conflict Management for Family Businesses

✦ TOPIC ✦
Relationship Management

It's been estimated that 75% of small businesses are family businesses. Just think of how many local businesses you deal with routinely: the roofer you just contracted with, the farm center you're planning to buy your Christmas tree from, the carpet store you just used to fix up your family room … they're all family businesses. Many of these businesses are multi-generational, and research has shown that a large majority of these businesses fail in the third generation. Research also indicates that those that last into the 4th and 5th generations have done so very intentionally, with a particular eye to managing the conflicts that can erode the business, and here we're talking about internal conflicts, between the leadership in the family business.

Conflict in family businesses is inevitable. The real question is how can we use it to strengthen the business? So much depends on the relationships between the principals in the family business. Is there honesty, openness, willingness to be accountable, to share power and authority, to admit limitations without shame or fear of reprisals?

Stress can be a positive

Conflict is a form of stress. What is harmful is not stress in and of itself, but chronic and unresolved high levels of stress. Some level of stress is necessary for good physical functioning. Ever stay in bed for a few days recovering from surgery, a bad bout of the flu, or a slipped disc? Remember how weak your legs were when you got up and tried to walk? That's due in large part to a lack of reasonable stress on your leg muscles for the last few days. I will never forget when my Golden Retriever suffered a broken leg after being hit by a car. The surgeon told me the plate used to stabilize the fracture would have to be removed after 8 weeks, or the bone would be "stress protected" too much and would weaken, setting the stage for future fractures at the injury site. What might we take away from this analogy? That conflict, a particular form of stress, is necessary for growth and continuing development.

> Conflict in family businesses is inevitable. ***The real question is how can we use it to strengthen the business?***

We need to develop two important attitudes:

- conflict is good and necessary
- avoidance of conflict guarantees more of the same, and worse

What are some primary causes of conflict in family businesses? Here are just a few:

- fear of conflict
- issues with lack of trust
- fears of vulnerability
- fears of admitting limitations, weaknesses
- unbalanced loyalties
- feeling "trapped" in the family business
- unrecognized / unaddressed mental health issues among principals
- reluctance to express praise and appreciation
- triangulation instead of directness in communication
- personalizing & reacting instead of listening & accepting

What do we need to develop in order to handle conflict more constructively? There are a certain number of factors the principals need to be actively mindful of in order for the family business relationships to flourish:

- learning to trust each other in an ongoing and durable manner
- developing a culture of fairness and appreciation of each member's opinions
- learning to complement each other's strengths and limitations
- developing accountability to each other
- learning how to disagree while maintaining respect for each other
- creating atmosphere of safety to engage in conflict in order to resolve issues

A consultant can help you ***understand the nature of the conflicts upsetting your business,*** where they came from, and how to deal with them.

What steps can we take?

If conflict isn't managed creatively, what happens? Certainly, the problems get worse. People in leadership get polarized against each other. Inefficiency, dramas and hostility, heightened tensions that distract from the company's basic goals all simmer below the surface and become part of the daily routine.

The one great task the principals have to learn is to talk with each other honestly, authentically, and without fear of reprisals. One way to help your business move in this direction is to hire a conflict management consultant. A consultant can help you understand the nature of the conflicts upsetting your business, where they came from, and how to deal with them. For instance, are the conflicts about succession issues, loyalty clashes, compensation disputes? Clearly identifying what is at the root of a conflict is key to resolving it. The consultant can also help you create family leadership meetings to establish a structure that allows for safe and respectful conflict management. The meetings should be all about the "family process", focusing on how we are relating to each other. These meetings should be held twice a month for 1 to 2 hours each session. During these meetings the consultant can help the principals to take turns responding to some key questions. Each member can ask "how am I doing as a leader?" "What could I be doing better?" "What do you see as my strengths?" "In what areas do you think I need improvement?" Asking for feedback , receiving the input, considering it nondefensively…this fosters a "platform of parity" among the principals. Not talking about products, about margins and sales, but conversations about relationships within the leadership group. The ultimate question might be "What would I do, what might I say, if I were not afraid?" S

Chase E. Kneeland, MDiv, LMFT

Family Business Conflict Management

Chase Kneeland is a PA licensed marriage & family therapist. He received his BS from Ursinus College and MDiv from Gordon-Conwell Theological Seminary. Nationally certified by the American Association for Marriage and Family Therapy in 1980, Mr. Kneeland directed a Pastoral Counseling Center prior to establishing a private practice in 1984, taught Behavioral Science in a Family Practice Residency Program, and consults in Family Business Conflict Management. He has recently retired from the Board of Supervisors of Worcester Township Pennsylvania after serving two terms.

the Sensenig Capital Advisory Team

Carl B. Sensenig
President

Carl Sensenig earned his Bachelor of Science degree in Business Management from York College of Pennsylvania and his Certificate of Professional Studies in Finance from Ursinus College.

Carl served as Vice President and Portfolio Manager for nearly twenty years at Arthur E. Spellissy & Associates (Wayne, PA) before founding Sensenig Capital Advisors in April, 2007. From 1972 to 1987, he held sales and marketing management positions with two public companies. A veteran, he also served four years in the United States Air Force.

In addition to being active in church leadership, Carl currently serves on the boards of several non-profit organizations in the local community, including Advanced Living Communities, The Center for Loss and Bereavement, and The Schwenkfelder Library and Heritage Center. S

Jeremy C. Brenn, MBA, CFP®
Vice President

As Vice President, Jeremy Brenn is responsible for many of the firm's client relationships, as well as managing the strategic direction and wealth management process for Sensenig Capital. Jeremy earned his Bachelor of Arts degree from York College of Pennsylvania, as well as his Master of Business Administration in Finance from Hood College, Frederick, MD.

Jeremy is an active member of the Financial Planning Association. He also holds the distinguished CERTIFIED FINANCIAL PLANNER™ professional designation. He has been quoted in the Philadelphia Inquirer and other personal finance related sources.

In addition, Jeremy currently serves on the Board of Directors at Meadowood Senior Living, a non-profit continuing care retirement community located in Worcester, PA. He lives in Montgomery County with his wife and three sons. S

TOPIC GUIDE

Genuine wealth managers use a consultative approach to construct solutions that encompass all types of financial needs. At its core, our wealth management approach is comprised of the subject matter areas listed below. We organize our newsletter around these topics and highlight each one for your benefit. Each article is tagged with the specific topic so you can relate the information to your own unique situation.

Investment Consulting — Maximizing the probability of investment success

Wealth Enhancement — Tax mitigation and cash flow planning

Wealth Transfer — Transferring wealth effectively to heirs

Wealth Protection — Transferring & mitigating risk through insurance

Charitable Giving — Maximizing the charitable impact

Relationship Management — Building deep, fulfilling relationships with our clients

GET A

SECOND OPINION

…AT NO OBLIGATION

LEARN MORE AT:

sensenigcapital.com/getting-started

Phone: (610) 584-9700 \ **Fax:** (610) 577-2899 \ **Email:** info@sensenigcapital.com \ **Web:** www.sensenigcapital.com

Sensenig Capital Advisors
3100 Mill Road
P.O. Box 245
Fairview Village, PA 19409

RiA STANDS FOR YOU.

Discover the difference with a Registered Investment Advisor.

FOLLOW US ON:

To read more from us scan this code with your smartphone