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Financial Synergies Pathway

By Mike Booker, CFP®, ChFC, CFS®, Board Certified in Asset Allocation

Over the years, clients have asked us if we would be willing to assist their adult children, nieces, nephews, and friends with financial planning and investment management, even though they don't have quite enough to meet our investment minimum. We have always done our best to accommodate those requests, but we've never had a formal offering that was tailored for the needs of younger clients. That is why we developed Financial Synergies Pathway as our newest service offering.

Financial Synergies Pathway is designed specifically for Gen Xers, Millennials, or anyone who is in the accumulation stage of their lives.

Our minimum initial investment for Pathway is only \$50,000. We will design and implement a portfolio suited for younger accumulators and provide the same ongoing management, investment selection, rebalancing, and reporting in a similar fashion as we provide to you.

In addition, our team will:

- Establish new accounts at Charles Schwab,
- Consolidate existing accounts and previous employers' 401(k)s,
- Provide investment management for current company retirement plans and 401(k)s
- Assist with budgeting and creating long-term savings goals
- Design a college savings plan

We also provide access to cutting edge planning and budgeting technology through our new software, Wealth360°, which is a technology that is also available to our current clients.

We invite you to visit our new Pathway website at fspathway.com to learn more. If you have someone in mind who might benefit from this service, please feel free to give us a call or contact us at info@finsyn.com.



Announcements

Thanks to everyone who made it to 1919 Wine & Mixology for our 2015 Client Appreciation Event On March 25th. We had a great time catching up with you out of the office. We hope you enjoyed it just as much as we did!

On the next few pages you'll see we have some exciting new things happening. We've introduced a new financial planning technology, Wealth360°. Will Goodson will go into detail about our planning process, and how we can improve your overall financial picture.

In our last newsletter, Mike Minter mentioned the addition of ETFs in some of your portfolios. On page 3, he goes into greater detail on some of these assets and how they are complementing our existing strategies.

If you have an interest in learning more about Wealth360° or would like to catch up, please contact Candace Cunningham at 713-623-6600 to setup a meeting or web conference.

Wealth360°

By Will Goodson CFP®

I attended a seminar last week where I heard a presentation from Bill Bachrach, a well-known coach and speaker within the financial services industry. During his presentation he said, “success is the cumulative effect of doing all of the little things the right way.”

I had been rolling ideas around for an article on financial planning and this quote really hit the nail on the head. The purpose of a financial plan is about achieving outcomes – it’s the “why” behind everything that you do in both your personal and financial life.

Now there are a lot of reasons why you need a financial plan, but one of the most powerful is that it creates your own “personal benchmark.” By this I mean that it allows you to take all of the financial “noise” with a grain of salt. The

daily fluctuations of the S&P 500 won’t matter as much when you know your own numbers and you can see yourself working toward reaching your goals. I recently read an article that suggests with the advent of online media, the average person consumes nearly 174 newspaper’s worth of information each day. Reading that sentence alone is enough to make your head hurt.

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That’s why we are very excited about our new financial planning platform – Wealth360°. This online tool allows our clients to create their own personal financial website. It’s an aggregator, which means it pulls data in from the various financial institutions you use for banking, credit cards, mortgages, etc., and brings all of the information “under one roof.” All you need is your username & password to start linking up your accounts.

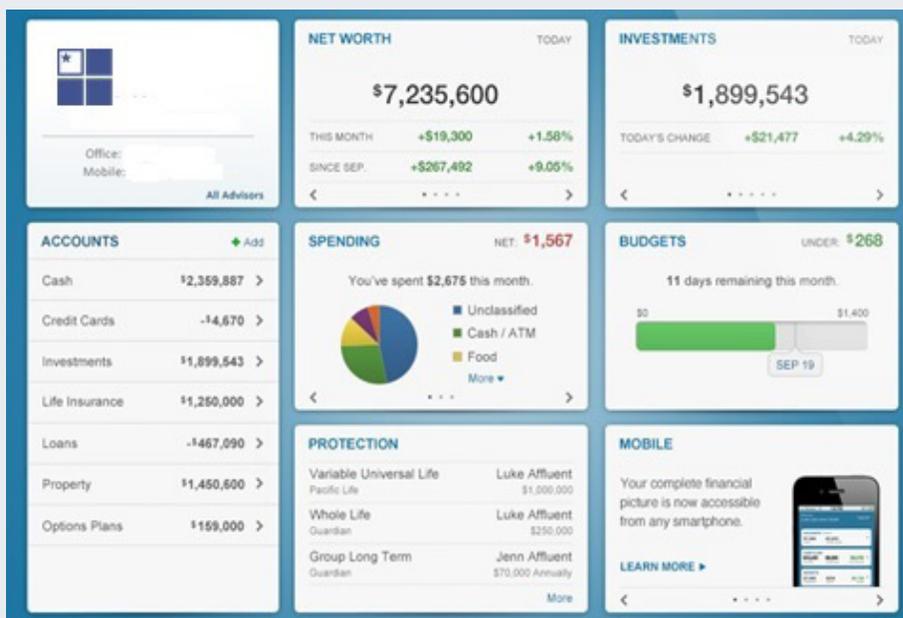
Online security is always a top priority when mixing online access with financial information, which is why we make sure our system uses the same high level of security used by a majority of financial institutions. It is also a non-transactional site, meaning that no assets can be sold or transferred, which is another layer of added protection.

Wealth360° was designed with every type of user in mind – whether you’re just dipping your toe into the technology world or you’re a seasoned pro. It includes a variety of financial tools:

- **Dashboard** – consolidated view of all accounts and daily updates
- **Spending** – track spending, monitor cash flow of account transactions in order to stay on track
- **Budgeting** – create budgets, track savings goals
- **Investments** – interactive charts, summaries, asset allocation
- **Workshops** – tools that demonstrate how financial decisions affect goals (retirement, education, etc.)
- **Financial Education** – library of videos, articles, etc. on financial topics
- **Vault** – online storage for important financial & personal documents (wills, trusts, passport copies, appraisals, insurance policies, etc.)
- **Additional Features** – Screen Sharing, email & mobile alerts

Wealth360° is the tool that we use to drive financial planning for our clients. We understand that, a lot of times, it’s not easy to pull back the curtain and let someone else into your entire financial picture. However, it is a critical component for building a well-rounded financial plan. You cannot diagnose a problem without knowing all of the symptoms. Knowing all of the relevant details allows us to create a plan that has the highest probability for success. There is no greater satisfaction for us than seeing your desired outcomes become a reality.

If you are interested in getting started with Wealth360° and creating your own “personal benchmark,” please feel free to email us or call the office. We look forward to getting your financial plan underway! ■



The Basics of Fundamental Indexing

By Mike Minter CFP®, CFS®

We are now utilizing some Fundamental Index ETFs in many of our portfolios. These strategies complement our existing positions and provide more diversification for our clients. In addition, these funds are inherently more tax efficient and lower cost.

With conventional market-capitalization-weighted indices (e.g. S&P 500), the weights of individual stocks are linked to their market prices. As the price of a stock increases, so does the weight. Consequently, investors have greater exposure to overvalued stocks and less exposure to undervalued stocks. During bull markets, market-capitalization-weighted indices do very well because hot companies keep getting hotter, and their prices push them to the top of the index. It's important to have some market-cap-weighted exposure, so as not to miss out completely on a bull market rally. But you have to counterbalance that exposure with differing methodologies.

The concept of fundamental indexing dates back many years, and was first introduced by Rob Arnott of Research Affiliates. The premise of the methodology is that markets aren't completely efficient; rather, they are prone to excesses on both the upside and the downside. Over time, however, markets "revert to the mean"—they correct themselves.

The Fundamental Indexing methodology breaks the link between security prices and index weights. These indices use non-price measures of company size such as adjusted sales, operating cash flow and dividends plus buybacks to select and weight index holdings. By means of a transparent, rules-based rebalancing process, the Fundamental Index approach methodically reduces weights in stocks that have gone up in price and increases weights in stocks which have fallen in price. Thus, the Fundamental Index methodology systematically trades against market price movements (the basic principle of investing: buy low and sell high).

This methodology resonates with us because it is very similar to the approach we take in managing our portfolios. We have optimal (target) weights for our asset classes and we've set deviation tolerance levels around each position. When those levels are breached we bring the portfolio back into balance. This is very counterintuitive to human nature, and sometimes painful, as we tend to want more of what is doing well. However, in the world of investing, too much of a good thing can come back to bite you!

From the inception of the first Fundamental Index (FTSE RAFI US 1000) on December 1, 2005, through December 31, 2014, it has produced cumulative annualized performance of 9.4% compared with 7.9% for the S&P 500. So that's an annualized excess return of 1.5% above the cap-weighted index for the first 10 years.¹

While past performance is certainly not a guarantee of future returns, we believe the Fundamental Index methodology complements our philosophy of pursuing the highest potential return for a given level of risk. ■

1. West, John. 2014. "Flying High: RAFI at 10 Years." Research Affiliates. March 2015.



Are your outside assets getting the attention they deserve?

In today's fast paced world it's easy to neglect outside accounts like your 401(k) or deferred compensation plan. We are pleased to announce that we now have the ability to help you manage your 401(k) (or any investment account) held outside of Charles Schwab for a nominal fee. We believe that a comprehensive understanding of our clients' financial lives is essential when providing sound advice. We've always offered our clients asset allocation recommendations for these "held-away" accounts. However, now we have the technology in place to help our clients with the ongoing management of accounts held outside of Charles Schwab & Co., Inc.

In addition to making investment recommendations, we can also provide detailed performance reporting, assistance with trading and rebalancing, daily account monitoring, and online access through finsyn.com, just as we do now for your managed accounts.

We strive to provide our clients with cutting edge service offerings. If you would like ongoing professional guidance with your 401(k), 403(b), or any other account held outside of Schwab, please feel free to give us a call. ■



Baron Discovery: A Meeting with the Portfolio Managers

By Bryan Zschiesche, CFP®, MS, MBA

We were recently given the opportunity to meet with the two portfolio managers of Baron Discovery, a fund which we added to our clients' portfolios in August 2014. The fund is managed by Randy Gwartzman and Laird Bieger, both of whom have studied under the tutelage of legendary small cap managers Cliff Greenberg and Ron Baron.

Randy and Laird were visiting Houston earlier this quarter, and we were fortunate to have some time with them in our office. Much can be gleaned in face-to-face conversations that might otherwise get lost when looking at prospectuses and Morningstar fact sheets. The benefit of the insights we gain from direct manager conversations like this is immeasurable.

Baron Discovery invests in high growth, small and micro-cap companies with great long-term prospects. Identifying a rising star early is the key to the success of the fund. For the full year of 2014, the Institutional share class of the fund boasted a total return of 13.8%, while it's Russell 2000 Growth benchmark made only 5.6%.

All of the signs of a great synergy between Randy and Laird were obvious after only a few minutes of conversation. The managers, who originally met one another in graduate school at Columbia University, have a deep expertise in different sectors of the small-cap stock market. Randy has a special focus on health care, technology, and industrial sectors, while Laird specializes in energy, consumer discretionary, and real estate companies. These complimentary skills have allowed them to build a portfolio of around 60 companies that have great long-term prospects and could potentially be targeted in a buyout by larger companies, an event that can boost the stock price of the acquired company tremendously.

As an example, Randy told us about a stock in the portfolio called Foundation Medicine, Inc., which provides cutting edge genomic information to oncologists and cancer patients in an effort to laser focus their individual treatment. It was announced on January 11th that roughly 56% of the company was to be purchased by drug developer Roche at a 109% premium, boosting the stock from about \$24/share on Friday the 9th to over \$46/share on Monday the 12th. Needless to say, that was a good day for the fund!

This sort of buyout is "gravy" according to Laird. While they expect a handful of buyouts to happen in most years, they invest for the long-term, not relying on a buyout to justify the addition of a stock to the portfolio. Companies make their way into the portfolio by exhibiting the ability to generate accelerating cash flow and strong management.

Randy also emphasized, "We're stock pickers, not market timers." Picking stocks successfully involves a great deal of both quantitative and qualitative research. While in Houston, Laird stopped by The Container Store on Westheimer because they hold the stock in their portfolio. He was curious how strong the store's recent sales had been, how the managers and employees thought their annual Elfa sale was going, and how the rollout of their new high-end closet line was coming. This sort of "boots-on-the-ground" knowledge can have a big impact on whether or not a stock makes it into the fund, how much of it might be owned, and whether or not it's time to sell. Individual investors can't reasonably replicate this sort of qualitative research.

Another advantage Randy and Laird have is the long history of Baron as a respected small-cap manager. They are regularly able to obtain meetings with company management prior to IPOs, when only a handful of investment firms may be granted such a meeting.

There has been much debate in recent years about whether or not actively managed mutual funds have any chance of beating an unmanaged index. We believe that there are a select group of special fund managers who have the talent to add value over time, and those ingredients for success are definitely there with Baron Discovery. ■



Q&A with Will and Candace

Tell us a little bit about yourselves.

Will Goodson (WG): I'm originally from Beaumont, TX, and my parents still live in the house where I grew up. I have one older sister, Molly. She is a speech pathologist and works at a Montessori school in the Dallas area. My dad, Guy, is an attorney and my mom, Kimberly, is a retired dental hygienist. My dad also spent 15+ years as a city councilman and mayor of Beaumont. I attended the University of Texas, and worked in Austin for nearly four years after college. I moved to Houston in 2010 where I met my wife, Amy, a couple of years later. She works in sales for an oil & gas services company.



Amy and I got married in November 2014, so we're enjoying being newlyweds. We love being outdoors, whether it's a walk through our neighborhood or riding our bikes. You really have to take full advantage of the spring weather in Houston – the summer heat is always right around the corner. But having grown up in Southeast Texas, I wouldn't have it any other way.



Candace Cunningham (CC): I was born and raised in the small town of El Campo, TX. When I turned 18, I moved to College Station and landed at Texas A&M where I studied the biology of plants. I moved to Houston in the summer of 2014 to work with a non-profit organization that improves recycling programs for the city, and the whole of Texas. In my free time, I enjoy an array of artistic hobbies; I am currently trying my hand at tapestry weaving. I also enjoy reading, and am currently in the midst of several books: one on finance, another on art history, and another on the art of learning a foreign language. I currently live in West Houston with my two cats, but am getting ready to move into the heart of the city this summer. I couldn't be more excited.

What is your favorite thing about being a part of the Financial Synergies team?

WG: The people are the firm's greatest asset. From the very first time I met with the Financial Synergies team, I knew this was a place I wanted to work. There is a tremendous amount of mutual respect shared by everyone that works here. I love how much we collaborate as a team, and there is a genuine commitment toward delivering at the highest level for everything that we do. I literally sit in the middle of the office, so I feel connected to all that goes on and every door has been open to me since Day 1.

CC: My favorite thing about working for Financial Synergies are the opportunities I have to connect with people from various backgrounds. I am surrounded by intelligent and hard-working people who love their jobs, and our clients are interesting, successful, kind, and a joy to get to know. Years ago I would have never guessed that I would be working at a financial firm, but I couldn't be more grateful that Financial Synergies picked me to join their team.

What projects are you working on now?

WG: I'm thrilled to be an integral part of growing the financial planning services offered by the firm. Financial decisions cannot be made in a vacuum – you really have to have a panoramic view of a client's financial life to give meaningful and actionable advice. I've enjoyed getting to know our clients and looking for ways to ensure they meet their goals while trying to identify important areas that sometimes get overlooked when you're only focused on investment returns. Those returns are certainly one of the engines that drive a financial plan, but not the only component.

CC: I am currently leading the effort to schedule touch-base meetings with all of our clients. We want make sure their needs are being met, let them know we are thinking of them and would love to meet with them to catch up. My first week, I implemented a recycling program for our workplace. It started with just a small reusable bag for plastic bottles that we recycled every other week, and has grown into an actual recycling bin that fills up in just a few days. I am proud to know that we are becoming more environmentally friendly and conscious each day.

Where is your favorite travel destination?

WG: We traveled to Belize for our honeymoon. It's such an amazing place – the landscape is breathtaking, it has a lot of rich history, and the people are very friendly. It is home to the second largest barrier reef in the world. I was fascinated by sharks as a kid (and still am today). We went on a snorkeling excursion one of days while we were there, which took us to a popular place where you can swim with sharks and stingrays. I was like a kid in a candy store, and even got to hold a 6-foot nurse shark. It was one of the highlights of my life... aside from marrying my beautiful wife, of course!

CC: My favorite travel destination is Colorado Bend, Texas. It is just west of Austin and has the most beautiful and green scenery; I spent a week camping there and it was a great experience. ■