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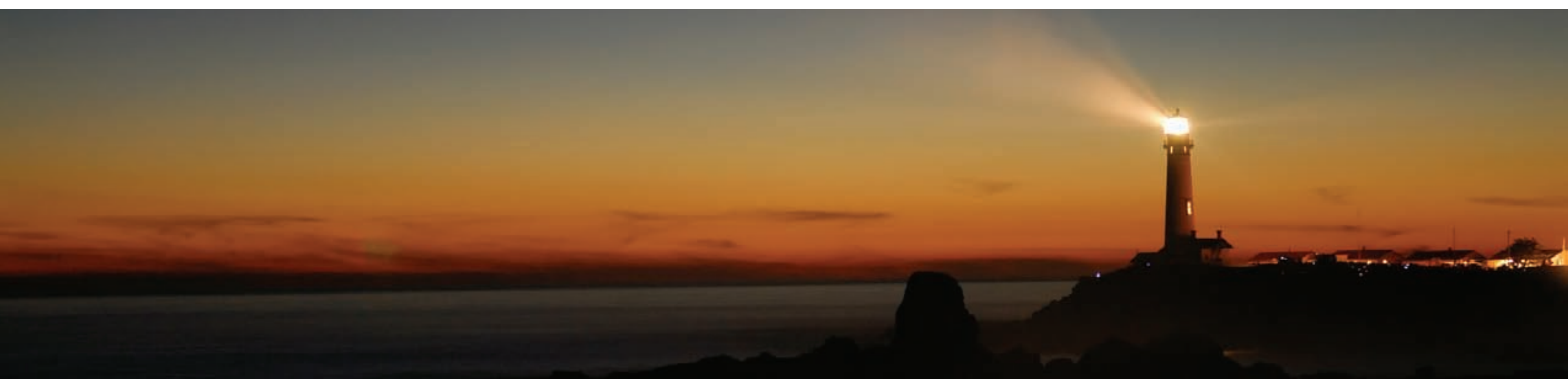

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A Father's (Now Son's) Driving Dilemma

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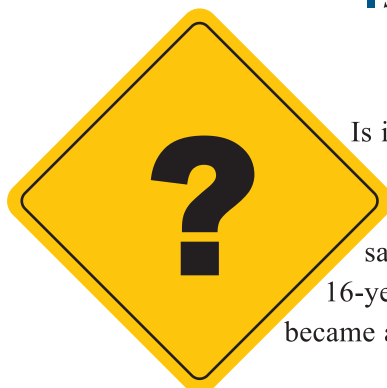


Is it really possible for a teenager to handle the responsibility of owning a car? The insurance companies don't seem to think so. How can I argue with them? My saga began over 10 years ago when my baby became a 16-year old male driver. His desire for a car of his own became a test of wills.

Admittedly, I could afford to buy one, so this column is not about setting up a savings plan to buy a car. Stalling for time (pardon the pun), I told him to get a job to at least pay the operating costs. I had to do that for my first car. I had to walk to school in blinding Houston snowstorms wearing tattered sandals and carrying just a candle for light. I knew the value of money when I was his age. "Dad, inflation has reduced the value of money since you were a kid."

Story continued inside ...

Story continued from front ...

Although he applied, possible employers didn't call back. Perhaps it was because there were only about three weeks scattered through the summer break that didn't conflict with church mission trips, the family's vacation, etc. Kids are busier than when I was his age. Earning significant amounts of money just wasn't in the cards.

I didn't get my first car until I was in college. "But Daaaaadddd, everyone has a car." Yeah, everyone but you.

He was great at enlisting his mother's help. "Mom, I could drive my brother and me to and from school if I had a car. I can go pick him up from football practice." Mom was getting real tired of playing limo driver. She hung tough for a while, but her resolve began to fade.

So, we bought him a car. First, we required him to sign a contract that sets forth clear responsibilities, rules and consequences for violations. For the most part, he abided by the contract, but on the few occasions that he violated it, there was no gnashing of teeth about the consequences. That contract may have been one of the best things I did during his teenage years.

Actually, he's a very good driver. But, he has very bad luck. He had two flat tires in as many months. I've only had one flat in my entire life. I had to go help him change one in 107 degree heat. By the time I got there, he'd almost finished changing the tire himself. What a pleasant surprise! He was becoming self-sufficient. But I fondly remember when he needed his father.

That's all ancient history. I'm pleased to report that my kids have flown the coop. As far as I know, they are responsible drivers. But, a new problem looms on the horizon. Our parents are getting older and we are beginning to worry about their driving skills. Aging seems to be infringing on other freedoms; their cars give them independence. I can't imagine the reaction to me suggesting they give it up.

I've had these types of conversations with seasoned clients with good success. I know it will be tougher with our parents, just as I know it will be someday when my kids decide they need to have that conversation with me.

When should you have the conversation with your parents? Ideally, you should raise the subject long before it is necessary. It is a lot easier to talk about and prepare for a potential problem, seeking their insights. Start by defusing any threat. "Mom and Dad, I want to talk about something that might be a problem one day, but clearly is not today." Ask them under what circumstances should an aging individual stop driving. "What are the warning signs?" (Examples include multiple tickets or accidents, poor eyesight, dents and scrapes on the car, friends' reluctance to be in the car, getting lost, memory issues, etc.) Then, "if you start exhibiting those signs, how should I discuss it with you? What will be your concerns if you can no longer drive and how will we handle those concerns?" You could then document this conversation in writing and maybe even ask your parents to sign it.

What if your parent should stop driving now? This is tougher. You could try the same questions, but the odds are that your parent will see right through them, feel threatened and immediately become defensive. You could try a more direct approach, "Dad, I know that you love and need to drive. You depend upon your car. But, I am worried about your safety when you are driving, as well as the safety of others. I am afraid that you must stop driving soon. Tell me what you will miss when you stop driving. Help me to help you deal with your concerns."

Need more help or information? Try Googling something like, "When should an older person stop driving?" There are lots of resources available.

Sometimes, the message might be better received if it comes from another adult, or even the family doctor, but don't shirk from the responsibility to initiate it. It takes a combination of understanding, love, respect, perseverance and guts. I've got all that, but I'm still not looking forward to it.

If you would like a copy of the driving contract mentioned in this article, please contact Ross Nager at RNager@sentineltrust.com or call 713.630.9646.

How Much Weight Should Investors Give to Alternative Indexing?

ANDREW G. PAINE
Investment Analyst

TRADITIONALLY, PASSIVE EQUITY INVESTORS (WHO SEEK TO MIMIC BENCHMARKS INSTEAD OF BEATING THEM) HAVE USED INDICES THAT ARE WEIGHTED BY MARKET CAPITALIZATION,

an approach that is theoretically correct but has some imperfections that have caused some investors to turn to different weighting schemes. As it turns out, these alternative weighting methods have their own set of limitations.

Most indices, including the S&P 500, are weighted by equity "market cap," which is the total value of a company's shares. For example, Apple's "weight" in the S&P 500 index is based on its market cap as a percentage of the total market cap of all the companies in the index. Consequently, the index's returns are disproportionately influenced by its larger constituents like Apple. It also means that if Apple outperforms the index's other stocks, Apple will become even larger relative to its peers and will begin to influence the index even more disproportionately.

PARTICIPATING IN BUBBLES

Because of this last characteristic, critics of this method will correctly point out that market-cap-based weighting can at times foster participation in bubbles. For example, in the late 1990s technology stock prices skyrocketed well above their inherent values. As they outperformed their peers in other sectors, their weight within the market (and hence their influence on the indices' returns) kept increasing. Index investors carried their greatest tech weight at the worst time - just as tech valuations peaked and were about to come crashing back down to earth. We can conclude, therefore, that market-cap-based-index investing is not a perfect method.

Consequently, some investors have begun to favor indices that are weighted according to other factors, such as corporate earnings or book value (which is the shareholders' equity listed on a firm's balance sheet). For example, in an earnings-weighted index, if Company A reports $1 billion in profits and Company B reports $500 million, then Company A would command twice the weight of Company B. The index's target weights will change only when new earnings numbers are announced, not as stock prices move.

GLOBAL ASSET ALLOCATION

The same concept can be applied to global asset allocation. For example, a typical emerging markets index weights countries according to market cap. (A country's market cap is the cumulative market cap of all its stocks.) But we could also weight countries based on the combined earnings or book values of their companies. Or, we could weight countries based on their gross domestic products ("GDPs") as a percentage of the total GDP of all emerging markets. We could use nominal GDP, which is converted to US dollars using the market exchange rate, or we could use purchasing power parity ("PPP") GDP, which accounts for whether a country's currency is fairly valued. The accompanying chart shows how five of the better-known emerging market countries would be weighted if we construct five broad emerging markets indices according to these different metrics - market cap, book value, earnings, nominal GDP and PPP GDP.

Korea provides a stunning example of how drastically a country's weights can vary based on how an index is constructed. Korea has an 8.1% market-cap weighting and an 11.5% earnings weighting. Korean companies are a bigger part of emerging markets'

profitability than they are of market value. So, in comparison to other emerging markets, Korea's market cap is small relative to its corporate earnings, meaning Korea has a low price-to-earnings ratio. This could mean Korean stocks are attractively valued, but it also could mean that the country has low growth prospects and investors are discounting its stocks accordingly.

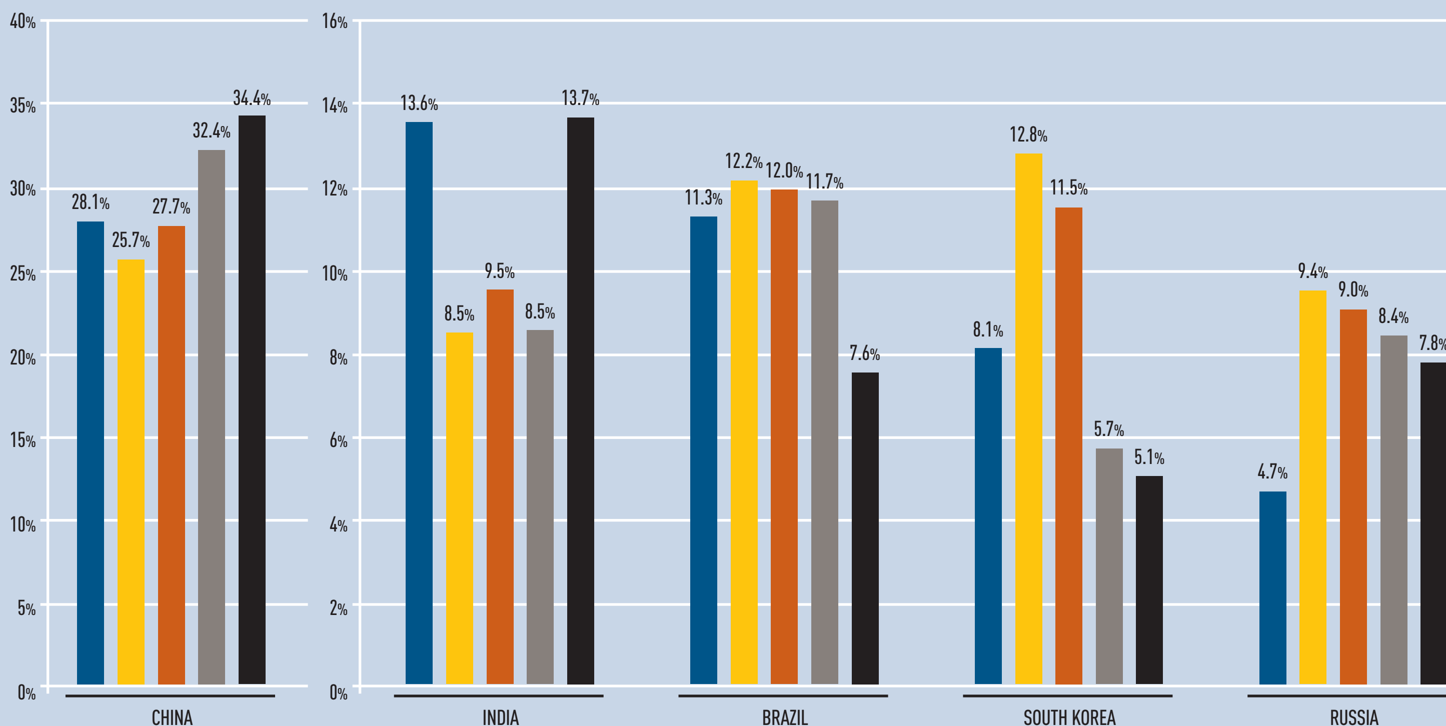
THE BOTTOM LINE IS THAT NO WEIGHTING METHOD IS PERFECT AND THAT INVESTORS - EVEN PASSIVE INVESTORS - SHOULD NOT INVEST IN ANY INDEX UNTIL THEY HAVE AT LEAST PAUSED TO CONSIDER ITS RISKS AND BIASES.

CONFLICTING MESSAGES

On the surface, these indices seem to send conflicting messages about Korea. We also observe that Korea's 8.1% weight declines significantly if the index is weighted according to nominal GDP, meaning that for an emerging market, Korea's market cap is large relative to the size of its economy. This could indicate that Korean stocks are expensive, but it also could mean that Korea has a small government sector or that a large part of its corporate sector is publicly traded. Korea's weight declines even more if we weight according to PPP GDP. This could mean that its currency is overvalued, but again, we ought not to jump to this conclusion without examining other possible causes.

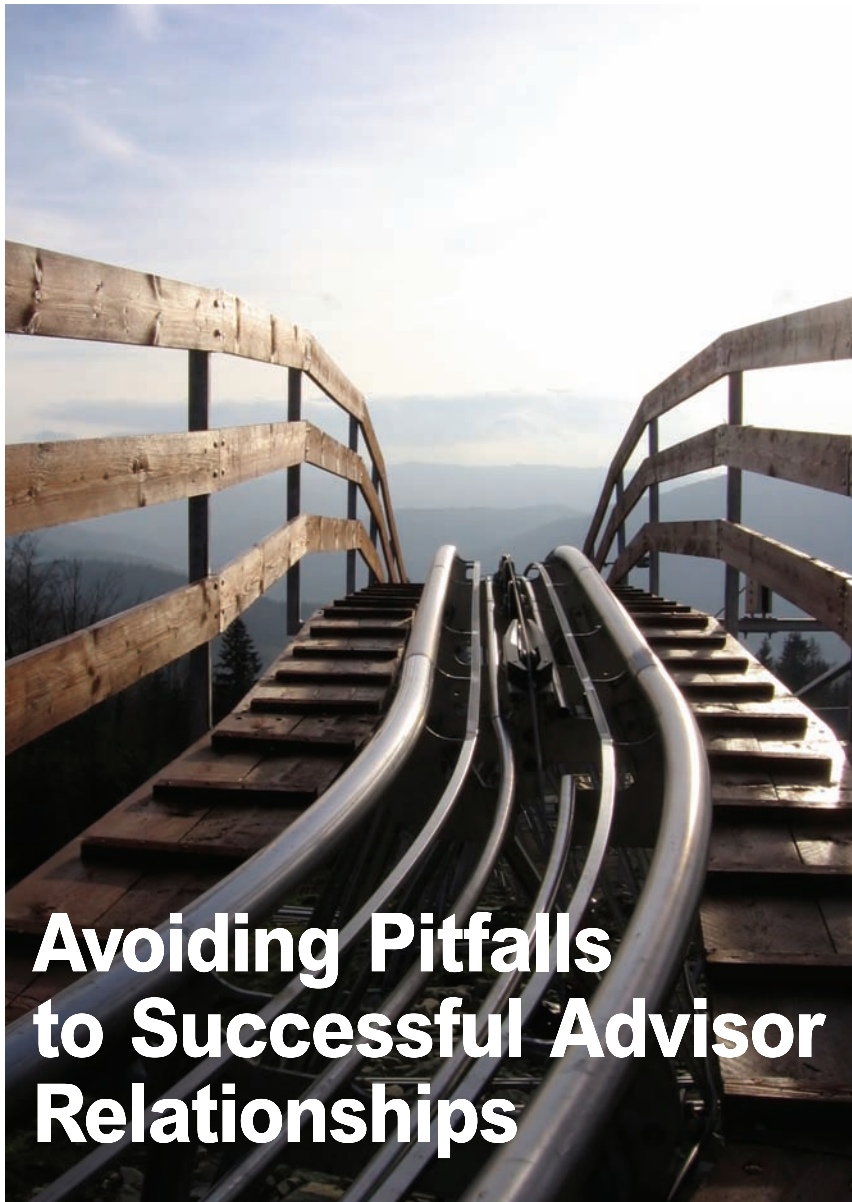
Markets often are efficient and market capitalizations represent the market's collective wisdom, but conventional market-cap-based indexing presents some pitfalls. Other weighting methodologies are based on only a few select data points and raise many interesting questions that market-cap-based indices cannot, but also provide incomplete answers. The bottom line is that no weighting method is perfect and that investors - even passive investors - should not invest in any index until they have at least paused to consider its risks and biases.

For a chart containing alternative indices for all emerging market countries, or for additional information, please contact Anthony DeToto at adetoto@sentineltrust.com or 713.559.9578.



EMERGING MARKET INDEX WEIGHTINGS: Country weights are shown as percentages of the totals for the 21 countries in the MSCI Emerging Markets Index, but are independently calculated using data from MSCI, Bloomberg and the International Monetary Fund.

Market Cap | Book Value | Earnings | Normal GDP | Purchasing Power Parity GDP



Avoiding Pitfalls to Successful Advisor Relationships

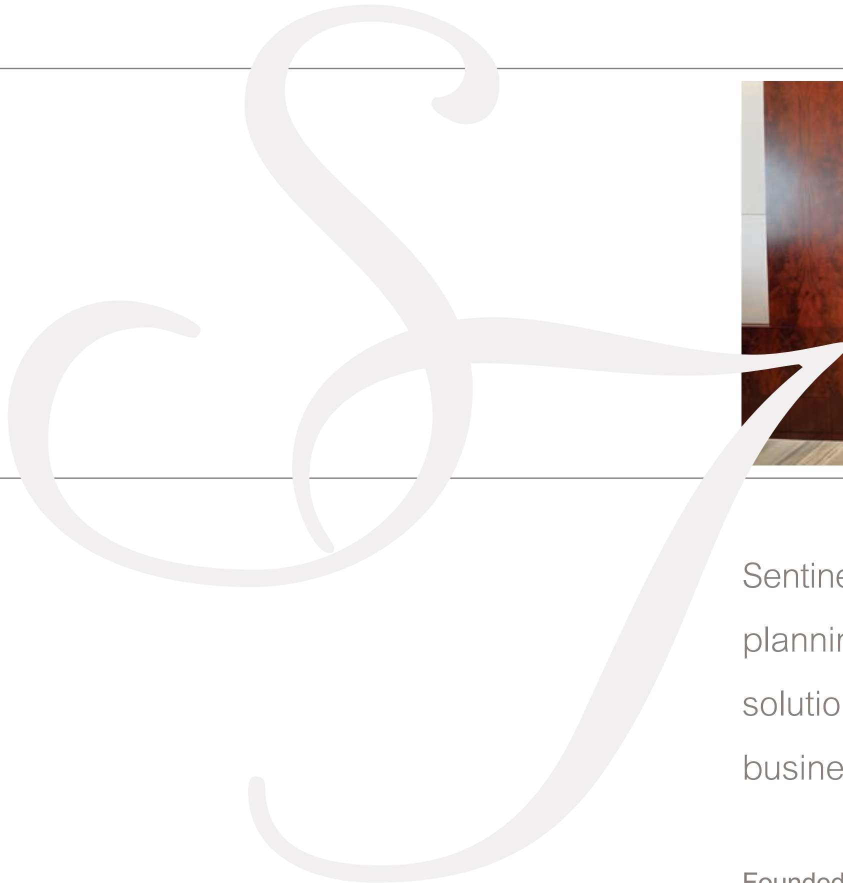
Wealthy families often engage advisors to assist with complex projects like wealth transfer planning, resolving succession issues and family education. Unfortunately, these projects and the advisory relationships can lead to frustration rather than success. Understanding the common causes of frustration can help families avoid potential pitfalls.

D. FORT FLOWERS, JR., CFA
President and CEO

Some examples of reasons behind failed advisor relationships include:

- No clear understanding of the family's objectives - If possible, family members should have a clear view of and consensus about the objectives. If the objectives are unclear, there should be a threshold project to determine them. The objectives should be communicated in a consistent manner to the advisors.
- No one is in charge - A family member, family office employee or an advisor should be designated as the leader in charge of coordinating work and communication. That person must have the responsibility to make sure the project moves forward.
- Turf wars – Unfortunately, complex projects can degenerate due to turf wars, which may exist among advisors or between advisors and family office personnel. Their differing agendas likely have little to do with the family's agenda.
- Information compartmentalized - The family (or its personnel) may not give individual advisors sufficient information to understand how their roles fit into the macro picture. Whether caused by attempts to minimize costs, control the project or a lack of trust, failure to provide full information to each involved advisor can cause the project to get bogged down and fail.
- Confusion by the family about advisors' goals - There is a difference between advisors, whose primary objective is to help the family accomplish its goals, and salesmen, whose only objective is to make sure their product is part of the solution. Families who don't recognize the distinction might ask a salesman to participate in the advisory team, potentially resulting in disruptions and less-than-optimal outcomes.

These issues also frustrate advisors, especially if their good advice is not accepted and acted upon.



Sentinel Trust Company provides custom integrated planning, investment, fiduciary and administrative solutions to affluent families and their closely held businesses and entities.

Founded in 1997 as the successor to two 40-year old, investment-focused family offices, today Sentinel offers the stability of an institutional firm, the entrepreneurial spirit of a young firm, the personal feel of a family office and the in-house technical skills of independent planning and investment management firms. **For further information**, please contact Anthony DeToto, Senior Vice President, at adetoto@sentineltrust.com or 713.559.9578.

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