



## Wealth Care LLC Monthly Commentary-February 2015

### Investment Thoughts

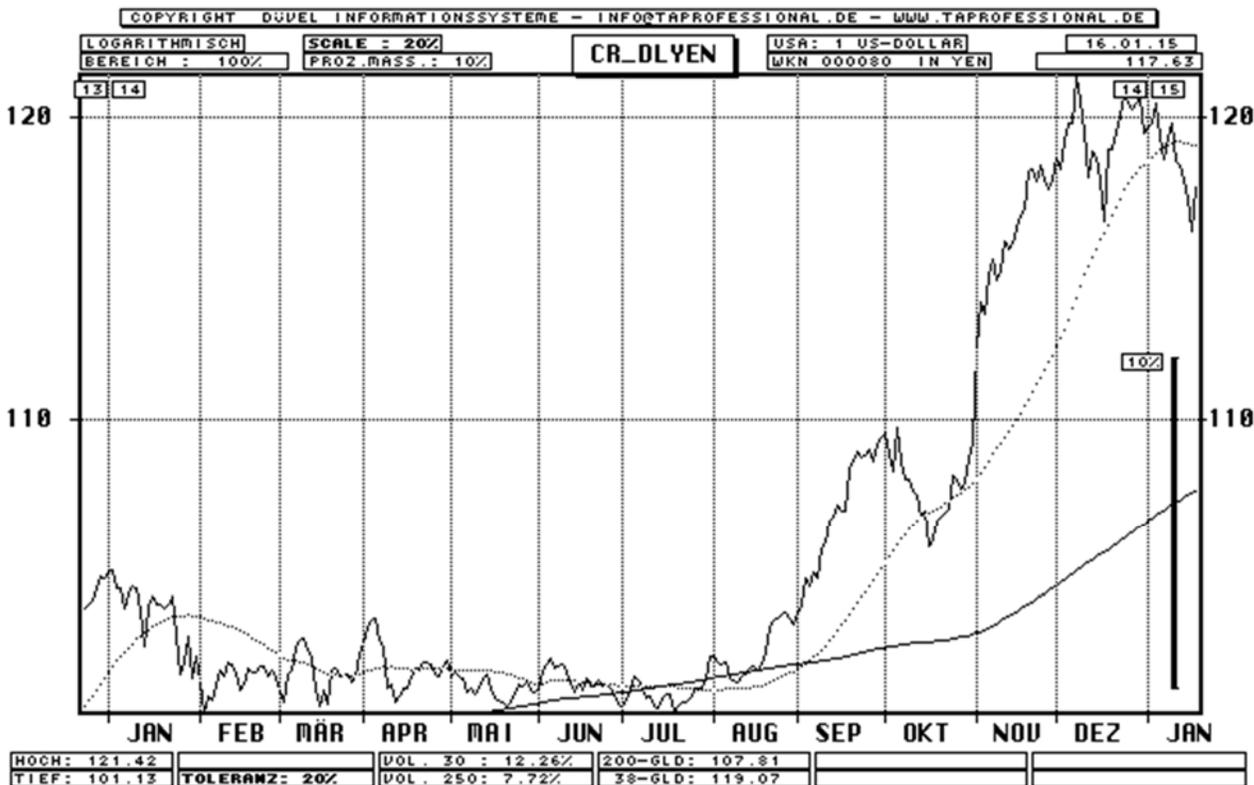
Let's take an early in the year review of world markets:

The US stock market is fully valued. Since early 2009, at which time it was severely undervalued, we have had a spectacularly stable rise in prices. We have not seen more than a 10% drop in prices for over five years, which is unusual. One would expect that price appreciation here would slow when compared to other world markets that have lagged in performance, but we'll see.

The US bond market remains surprisingly robust, with high prices and very low yields. The risk/return ratio here continues to favor avoiding all but short term bonds.

Large Developed Foreign Stocks (primarily Europe and Japan) are inexpensive by valuation, but at significant risk due to currency swings. Here is the dollar appreciating against the Yen, as the

### **Yen-Chart: US-Dollar versus japanese Yen | USD/JPY**



Japanese print money with vigor. Accordingly, Japanese stocks become worth less as the dollar appreciates against the Yen. The same is now happening to the Euro as compared to the dollar. So, even if many European and Japanese stocks go up, the currency swings could markedly reduce returns. There are some funds that remove the currency factors, but they have higher expenses. I am using some of these currency hedged funds in some portfolios.

Foreign large country bonds seem reasonable, although they are all lowering their interest rates as are we.

Emerging market stocks (the rest of the world) look inexpensive. Some of these countries and companies will have trouble with a strong dollar, but others will thrive. The same is true with Emerging market bonds.

Commodities are hard to assess. The largest commodity is energy, which has taken a large swoon in prices over the last six months. My best guess is that we'll see higher oil/gas prices in time for a variety of reasons.

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So, scratch your head with me about where to put our money. Let's take another look at the "periodic table of investment returns" for some clues.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Annualized
Emerging Mkts 32.6%	REITs 35.1%	Emerging Mkts 33.1%	Aggregate Bonds 7.6%	Emerging Mkts 68.9%	REITs 28.3%	TIPS Bonds 13.3%	Emerging Mkts 19.1%	Small Cap 41.0%	REITs 30.1%	Mid Cap 9.4%
Comdty 21.4%	Emerging Mkts 31.4%	Comdty 14.9%	Cash 2.1%	Small Cap 41.6%	Small Cap 27.2%	REITs 8.5%	Int'l Stocks 18.8%	Mid Cap 33.1%	Large Cap 13.7%	Small Cap 9.4%
Int'l Stocks 13.3%	Int'l Stocks 25.9%	TIPS Bonds 11.9%	TIPS Bonds -0.5%	Mid Cap 37.6%	Mid Cap 26.3%	Aggregate Bonds 7.7%	Mid Cap 17.8%	Large Cap 32.2%	Mid Cap 9.4%	REITs 8.4%
Mid Cap 12.5%	Small Cap 17.0%	Int'l Stocks 9.9%	Mid Cap -36.4%	REITs 29.6%	Emerging Mkts 16.5%	Large Cap 2.1%	REITs 17.5%	Int'l Stocks 21.4%	Aggregate Bonds 6.0%	Emerging Mkts 7.6%
REITs 11.9%	Large Cap 15.6%	Mid Cap 7.1%	Small Cap -37.4%	Int'l Stocks 26.9%	Comdty 16.2%	Cash 0.1%	Large Cap 15.8%	REITs 2.3%	TIPS Bonds 3.6%	Large Cap 7.6%
Small Cap 7.7%	Mid Cap 10.0%	Aggregate Bonds 6.7%	Comdty -37.4%	Large Cap 25.9%	Large Cap 14.8%	Small Cap 1.1%	Small Cap 15.7%	Cash 0.1%	Small Cap 3.0%	Aggregate Bonds 4.5%
Large Cap 4.8%	Cash 4.9%	Large Cap 5.5%	Large Cap -36.6%	Comdty 20.1%	Int'l Stocks 8.2%	Mid Cap -2.1%	TIPS Bonds 6.4%	Aggregate Bonds -2.0%	Cash 0.1%	Int'l Stocks 4.2%
Cash 3.1%	Aggregate Bonds 3.9%	Cash 5.0%	REITs -37.1%	TIPS Bonds 8.9%	Aggregate Bonds 6.4%	Int'l Stocks -12.3%	Aggregate Bonds 3.8%	Emerging Mkts -3.7%	Emerging Mkts -3.9%	TIPS Bonds 4.2%
TIPS Bonds 2.6%	Comdty 2.1%	Small Cap 1.8%	Int'l Stocks -41.0%	Aggregate Bonds 3.3%	TIPS Bonds 6.1%	Comdty -14.0%	Cash 0.1%	TIPS Bonds -8.5%	Int'l Stocks -6.2%	Cash 1.6%
Aggregate Bonds 2.0%	TIPS Bonds 0.2%	REITs -16.5%	Emerging Mkts -48.9%	Cash 0.2%	Cash 0.1%	Emerging Mkts -18.8%	Comdty -2.1%	Comdty -11.1%	Comdty -18.6%	Comdty -2.7%

Funds: EEM, VGSIX, MDY, SLY, SPY, EFA, TIP, AGG, DJP, T-Bills

The reason this is my favorite performance chart is because it shows how humbling the investment business can be. There's little consistency from year-to-year as each asset class takes its turn in the different slots. It is impossible to predict the best performing class in any given year.

Author Peter Bernstein said, "The riskiest moment is when you're right. That's when you're in the most trouble, because you tend to overstay the good decisions. So, in many ways, it's better not to be so right. That's what diversification is for. It's an explicit recognition of ignorance. And I view diversification not only as a survival strategy but as an aggressive strategy, because the next windfall might come from a surprising place."



## The Things We Take for Granted

On a recent cruise we took in South America, one of the passengers had a sudden large stroke. She was immediately transferred to a shoreside hospital with the expectation that she would receive one of the clot busting type drugs that could have potentially reversed her paralysis. Only later we heard that the capability to do so was not available in this medium size Argentinean town.

In almost any small American city (and certainly larger), most hospitals would have this technology available as the standard of care. The difference can mean a life in a wheelchair paralyzed or resumption of relatively normal existence.

It reminded me of how lucky we all are to have been born in and to live in the United States.

## Computer Security

We are hearing increasing reports of "ransomware," in which a hacker takes over your computer and makes you pay a ransom for an unlock code to recover your files. We'd expect this to happen more and more as it is lucrative and easy to do for hackers.

How to handle this effectively:

- Never click a link on an email you don't trust. We are seeing some incredibly "real" looking emails purportedly from online services, banks, stores, etc that induce you to click a link. Don't do it. Any legitimate request from a business should have you login to their site without hitting a link.
- Make sure you have a good antivirus/anti malware on your computer. It may not be as important for MACs (yet). I think the free Microsoft Security Essentials is just fine for almost anyone with a Windows PC. If you have commercial computers at work with sensitive information on them, consider hiring a tech company to provide higher level security such as a hard firewall and even hard drive encryption.

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- Always back up all the files you care about losing-pictures,documents,etc. It is so easy now; use one of the many services such as Carbonite, IDrive, Mozy, Dropbox. If you do the above and still get hacked, it would be a simple matter to restore your hard drive to new and reload your saved files from the cloud.

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### **Form ADV**

We have posted our annual ADV at the web site. This gives the SEC required information about the firm. It can be viewed as: <http://www.wealthcarellc.com/id1.html>.

### **Family Matters**

If you have a young adult family member or an elderly parent that needs some financial advice/help-please think of us for help. It is part of our service to Wealth Care LLC clients.

### **Random Notes**

17 Web sites that will make you smarter: <http://www.entrepreneur.com/article/234981>

“Experience is what you got when you didn’t get what you wanted.”-Howard Marks

Of course I talk to myself, sometimes I need expert advice.

I'm going to retire and live off of my savings. Not sure what I'll do that second week

Think about which expenditures gave you a lot of pleasure in 2014 and which were quickly forgotten. Use that to guide your spending in 2015.-Jonathan Clements

### **Steven Podnos MD, CFP® for Wealth Care LLC 2-1-2015**

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