Wealth Care LLC Monthly Commentary-April 2015

Value Added

We came across an excellent article about the value added in using a trusted financial planner, and would like to share some of the contents over the next few commentaries. The seven areas of benefit to you include:

- Return on Investment-better long term investment returns than you are likely to get otherwise
- Organization
- Accountability
- Objectivity
- Proactivity
- Education
- Partnership
-

This month, we'll focus on Return on Investment.

When trying to decide how well one's investments have done or will do in the future, here are just a few of the considerations:

- What are the appropriate asset allocations to make at different stages in your life?
- What are the appropriate asset allocations to make at different asset class valuations over time?
- How to react to market extremes in pricing-in either direction?
- What are the best investment vehicles to consider for any given asset class?
- How much should you save?
- How much should you spend?

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- Do your investment accounts have reasonable asset protection?
- Are your investment costs reasonable?

Using a fiduciary fee only planner gives you answers to all of these questions on a regular ongoing basis. It is never the "best" return over a quarter or calendar year that you should seek, but instead the "risk-adjusted" return that is appropriate to your goals over much longer periods of time. Risk adjusted refers to the appropriateness of your asset allocation in view of your goals and time horizon. For example, a portfolio of short term US Treasury securities offers excellent safety of principal, but currently is a guarantee of steady purchasing power losses over time (returns minus taxes and inflation). Such a portfolio may be appropriate for short term savings needs, or even for excess money that is not needed. But it is inappropriate for the typical families saving for retirement.

Having a fiduciary advisor should allow you to reach your financial goals with a higher degree of certainty and much less work. You will not always have the highest market returns, but should almost always "beat" your neighbors that don't get trusted advice.

Next month, we'll discuss the value of Organization.

Diversification and Time

I thought this outside blog post was an excellent discussion on the rationale for why we use diversified portfolios over time. It begins:

An investor writes in about his portfolio:

I have aggressive profile with an investment advisor. My return for 2014 is paltry 1.3% compared to S&P.

Wondering if I should ditch them or stay with them?

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Then he shared his portfolio allocation:

ASSET CLASS	PERCENTAGE	ETF
U.S. Stocks	35.2%	VTI , SCHB
Foreign Stocks	24.8%	VEA , SCHF
Emerging Markets	18.9%	VWO , IEMG
Dividend Stocks	10.0%	VIG , SCHD
Natural Resources	5.0%	VDE
Municipal Bonds	6.0%	MUB

The S&P 500 was up over 13% in 2014 and this guy is looking at a 1.3% gain. What gives?

First of all international stocks (VEA) were down nearly 6%. Emerging markets (VWO) were more or less flat. Dividend stocks (VIG) underperformed by nearly 3% and energy stocks (VDE) got hammered, down almost 10%. When one market, U.S. large cap stocks, dominates every broad investment class, it's easy to feel like a sucker for having anything else in your portfolio. But this is just one year.

Our investor may have felt differently during past cycles:

2014: Why am I invested in emerging markets? They were down 3 out of the past 4 years.
2009: Why don't I have more of my portfolio in emerging markets? They were up 75% this year.

2014: Why would I invest outside of the U.S.? U.S. stocks are up almost 22% a year since 2009 while my portfolio is only up 16.4% per year.

2002-2007: Why am I so heavily invested in U.S. stocks? My portfolio is up 21% per year, mainly from international stocks, but my U.S. shares are only up 13.8% per year.

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2014: Why didn't I hedge the U.S. dollar in my foreign stocks? The dollar led to a 10% loss in my international stocks last year.

2003-2005: Why would I ever hedge the foreign currency impact on my international stocks? The dollar is down 40% over the past three years.

You could play this game every year, but you're never going to have the best performance with a diversified portfolio. You'll also never have the worst. To see the other side of this story, from 2005-2007, this portfolio would have been up 16.6% per year, against an annual return for U.S. stocks of just 9%. Even extending this portfolio back a decade, which includes the financial crisis, it would have yielded an investor a 7.7% annual return. Not bad.

The point is that there will always be periods you can point to where your portfolio will trail certain markets, sectors or funds. Worrying about that type of short-term performance is never helpful. It only causes unforced errors, poor market timing decisions and unnecessary stress.

You also have to remember that when you're young and in the accumulation stage, your performance is bound to be affected by your contributions. When the markets move higher, your returns are going to look worse if you're making contributions throughout the year because you're continually buying at higher prices. In the down years this will work the other way to your advantage as you buy shares at lower prices.

If you've decided that a diversified, low-cost asset allocation approach is right for you, you have to get used to the fact that not every year is going to be gangbusters. There are going to be certain asset classes that lag. You'll hate at least one — and quite often more than one — of your funds or asset classes in any given year. But this is to be expected. Diversification is about the long game.

Could you quibble with this young gentleman's portfolio allocation? Sure, you could make some changes here and there that could make a difference. But over time, by consistently making contributions to a globally diversified stock market portfolio at low costs, you can't help but build wealth over time.

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Every single year you'll be able to play the 'what if?' game with your allocation no matter where you have your funds. There are always going to be parts of your portfolio that you are uncomfortable with at times. To paraphrase Keynes, it is the duty of the long-term investor to accept periodic losses and underperformance and act accordingly. You should only judge your results over the long-term, not a single year.

Source:
Bogleheads

Everplans

For a limited time, you can establish a free basic account at https://www.everplans.com/. This is an online site that allows you to save a great deal of important data for your family to access. This includes your online accounts and passwords, estate planning history, and more. You can designate "deputies" who can then access the data in case of disability, illness or death.

The basic account is free but its features will decrease in the near future. The current premium service allows uploaded documents for storage (but I can do this for you at no charge).

If this sounds interested, open a new basic account and check it out. Please let me know if you find it useful, as I might entertain using the service for clients of Wealth Care LLC.

A good resource for identity theft issues.

http://www.idtheftcenter.org/Fact-Sheets/fs100.html

Microsoft Office choices

I have tried some of the free Microsoft Office alternatives with various success, but keep coming back to the Office products. Microsoft just made a suite of their most popular products totally free online. They require a wifi connection and that's it. This should work for 90% plus of most people's needs. Check it out at https://office.live.com/start/default.aspx.

Office 365 is a value for those who need a little more (I use it). For $100 a year, you get five user accounts (and each user can register on more than one device). Each user can download a complete version of Microsoft Office onto their device/computer (no wifi necessary to use). In addition, you get an hour of Skype calling minutes and unlimited storage in the cloud with Microsoft OneDrive. That's an exceptional price for those who would like some online storage as well. Google Microsoft Office 365 if interested.

Next Issue

I like to read magazines and am now trying out an app on my iPad called Next Issue. For $15 a month, I have online access to over 100 magazines (about 10 of which I'm actually interested in). It works best on the iPad, but will also work with Mac computers, Windows 8 machines and Android tablets. If you like magazines, you can have a free trial. Google "next issue".

Random Notes

Financial Life Planners define success as meeting goals, not beating markets-Roy Diliberto CFP

Charlie and I have always considered a "bet" on ever-rising U.S. prosperity to be very close to a sure thing.

Indeed, who has ever benefited during the past 238 years by betting against America? If you compare our country's present condition to that existing in 1776, you have to rub your eyes in wonder. In my lifetime alone, real per-capita U.S. output has sextupled. My parents could not

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have dreamed in 1930 of the world their son would see. Though the preachers of pessimism prattle endlessly about America's problems, I've never seen one who wishes to emigrate (though I can think of a few for whom I would happily buy a one-way ticket).

The dynamism embedded in our market economy will continue to work its magic. Gains won't come in a smooth or uninterrupted manner; they never have. And we will regularly grumble about our government. But, most assuredly, America's best days lie ahead.

Warren Buffett, 2014 Letter to Berkshire Hathaway Shareholders

There are two theories to arguing with a woman, ... Neither works. Will Rogers

Steven Podnos MD, CFP® for Wealth Care LLC 4-1-2015

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