Wealth Care LLC Monthly Commentary-May 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

Last month, we focused on Return on Investment. This month, let's discuss the value of Organization.

We focus on organization during the initial financial planning process. We gather information both by talking/questioning, and then review your financial documents. The planning process proceeds on with an assessment and a plan, and we help you to implement those items that are agreed upon. At the completion of the plan, you should have a set of goals for asset accumulation, estate planning documents in place, correct levels of insurance in the right

405 Sims Way Merritt Island, FL 32952 | www.WealthCareLLC.com | T. 321.543.1099 | F. 815.301.3777 | E. Steven@wealthcarellc.com

formats, asset protection issues resolved, education planning (as appropriate) done, business planning and tax planning in place.
As on ongoing process, we'll keep you up to date with "what's new" in your financial world and then we'll help to put in place any needed changes.

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

Fidsafe.com

Last month, I wrote about everplans.com, a site to keep all of your information safe for heirs. This month, I'm pleased to recommend Fidsafe.com. It is a site developed by Fidelity Investments that allows you to upload all of your important documents as well as to store important passwords, etc. Best of all, it is free. I strongly encourage you to visit the site and open an account. Upload as much information as you wish.

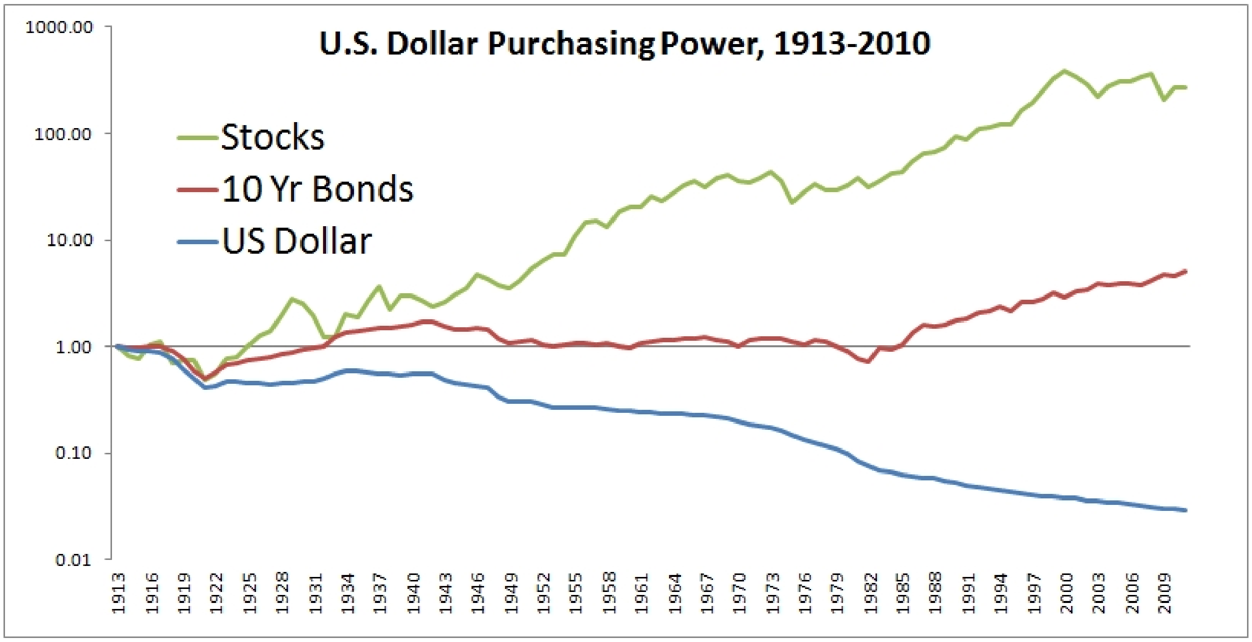
Also know that we at Wealth Care always keep a copy (secure) of any documents you share with us.

Learning from History

When we plan together, we try to project out on how your investments will grow over time. Not ever knowing the future, we make judgments based on the past. A recent study looked at asset class returns from 23 Western countries (only Germany was excluded for their hyperinflation after WW1). The next few pages are just some illustrations that once again prove that in the past 114 years, stocks were the only asset class to make any significant real returns. Long term investors take note (we do). Steve

STEVEN PODNOS MD, MBA, CFP®

405 Sims Way Merritt Island, FL 32952 | www.WealthCareLLC.com | T. 321.543.1099 | F. 815.301.3777 | E. Steven@wealthcarellc.com



For some long-term perspective, set forth below are some charts based on data from the book *Triumph of the Optimists* (available through Morningstar as the Dimson, Marsh, and Staunton module but requires a subscription). They represent the best-, middle-, and worst-case scenarios for the main asset classes of sixteen countries from 1900-2014. They have since updated their database to include 23 countries with results in the Credit Suisse reference link above. All return series are local real returns and displayed as a log graph (except the last one). U.S. dollar based returns are near identical.

First, here are the best-, middle-, and worst-cases for returns on your cash.

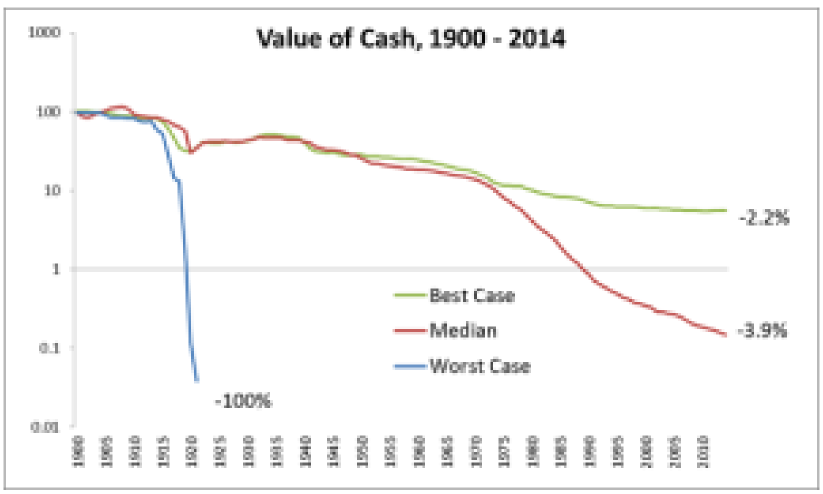
Figure 4 shows that leaving cash under your mattress is a slow bleed for a portfolio. Germany is excluded after the first series as it dominates the worst-case scenarios (in this case, hyperinflation). Inflation is a major drag on returns. When it gets out of control, it can completely wipe out your cash and bond savings. So you mattress stuffers – on average you would have lost about 4% a year by keeping your money at home.

FIGURE 4 – Cash Real Returns, 1900-2014

Best-Case: -2.2% per year

Middle: -3.9%

Worst-Case: -100%



Source: Morningstar, Elroy Dimson, Paul Marsh, Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, Credit Suisse Global Investment Returns Sourcebook 2015

Next up are real returns for short-term government bills. These instruments do all they can just to keep up with inflation. You're not usually going to make any money, as Figure 5 shows, but at least they don't lose 4% a year like the mattress does. We also include the "World" which is the global market capitalization weighted portfolio which weights the portfolio based on size of each country's stock market.

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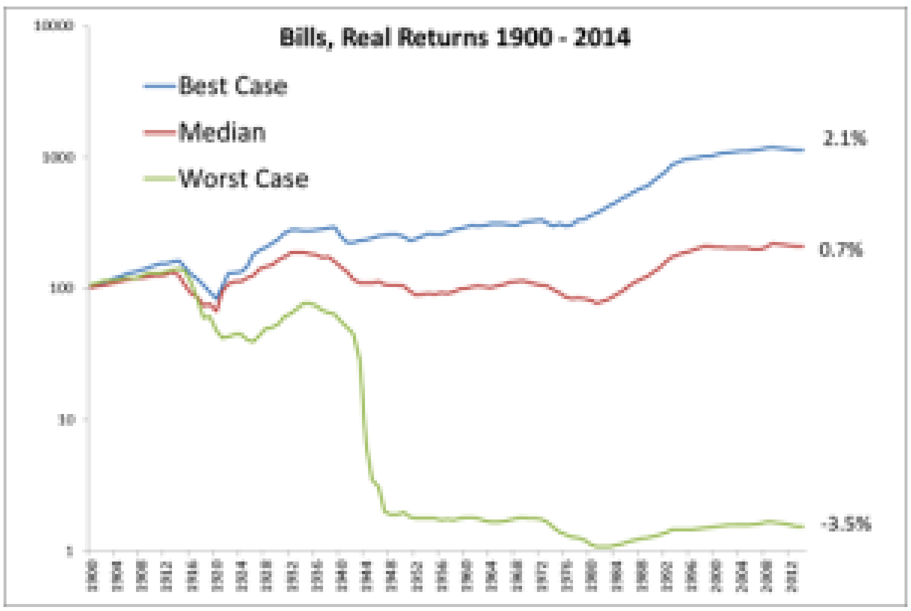
FIGURE 5 –Short-term Government Bills Real Returns, 1900-2014

Best-Case: 2.1% per year

Middle: 0. 7%

Worst-Case: -3.5% (Real Worst-Case, Germany -100%)

World: 0.9%



Source: Morningstar, Elroy Dimson, Paul Marsh, Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, Credit Suisse Global Investment Returns Sourcebook 2015

In Figure 6, adding a little duration risk doubles the historical returns of bills for our 10-year bonds, but that is still a pretty small return. You're not going to get rich with 1.7% real returns, and you still have to sit through a 50% drawdown, as we will show later.

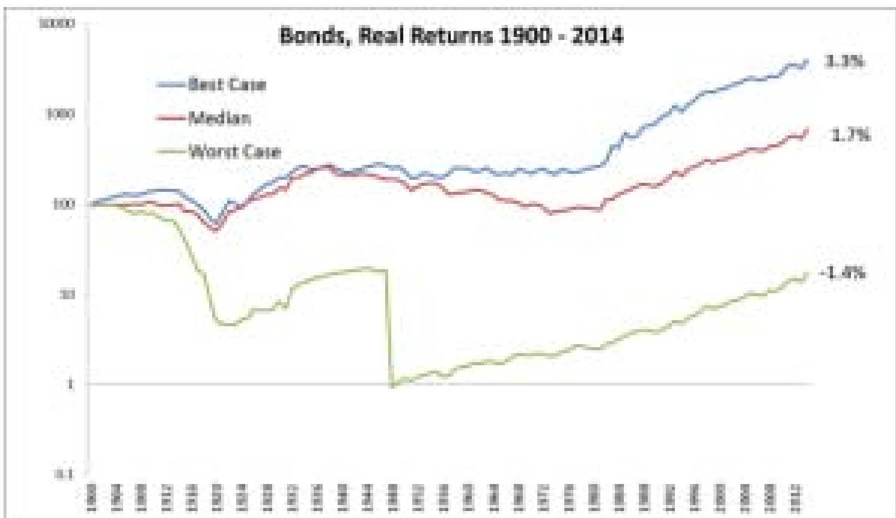
FIGURE 6 –Long-term Government Bonds Real Returns, 1900-2014

Best-Case: 3.3% per year

Middle: 1.7%

Worst-Case: -1.4% (Real Worst-Case, Germany -100%)

World: 1.9%



Source: Morningstar, Elroy Dimson, Paul Marsh, Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, Credit Suisse Global Investment Returns Sourcebook 2015

And finally, we have the real returns for stocks. Much better! Over 4% real returns per year is far superior to returns of the bond market. While these are great returns, realize that it would still take over 15 years to double your money!

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FIGURE 7 –Stocks Real Returns, 1900-2014

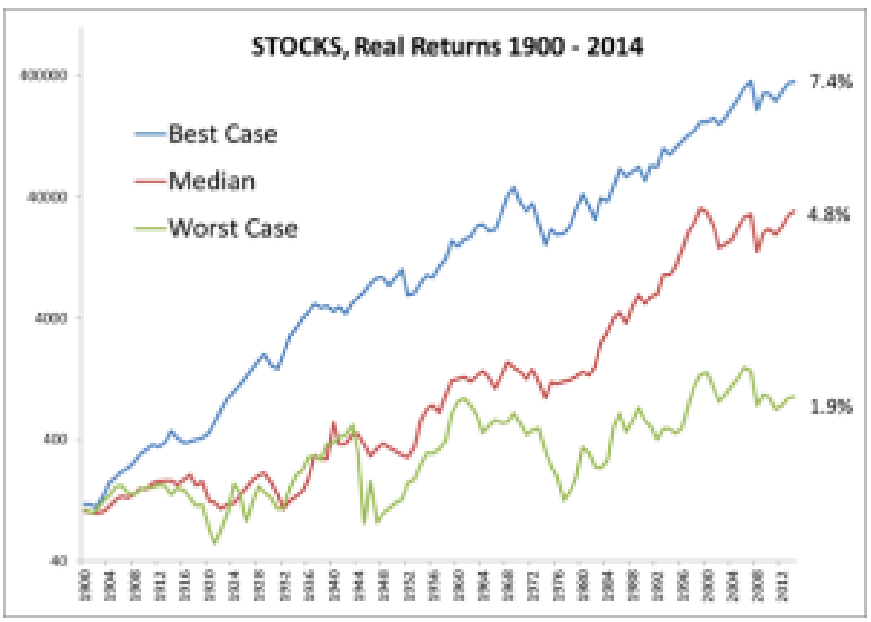
Best-Case: 7.4% per year

Middle: 4.8%

Worst-Case: 1.9%

(Real Worst-Case, China, Russia -100%)

World: 5.2%



Source: Morningstar, Elroy Dimson, Paul Marsh, Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, Credit Suisse Global Investment Returns Sourcebook 2015

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And in Figure 7a, the same chart is presented with a non-log y-axis. We do this to demonstrate to readers the importance of viewing charts that have percentage changes over long time frames with a log axis. Otherwise the chart is almost unreadable and definitely not useful. Perhaps importantly, you can now distinguish between unscrupulous money managers advertising their services with the below style of chart which can be misleading, as the gains look much more dramatic.

FIGURE 7a–Stocks Real Returns, 1900-2014, Non-log Axis

Source: Morningstar, Elroy Dimson, Paul Marsh, Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, Credit Suisse Global Investment Returns Sourcebook 2015

Let's look at the entire series across all countries to visualize some of the best and worst-case scenarios. It looks like a simple conservative rule of thumb may be to expect stocks to return around 4% to 5%, bonds 1% to 2%, and bills basically zero. Note that the United States had one of the best performing equity and bond markets for the 20th Century.

- See more at: http://mebfaber.com/#sthash.6w6JssMz.dpuf

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Random Thoughts

The older we get, the fewer things seem worth waiting in line for. Will Rogers

The most effective way to remember your wife's birthday is to forget it once....Nash

A recent study found that women who carry a little extra weight live longer than the men who mention it.

A retired husband is often a wife's full-time job.
— Ella Harris

Steven Podnos MD, CFP® for Wealth Care LLC 5-1-2015

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