



Wealth Care LLC Monthly Commentary-February 2016

Investment Thoughts

We have had a really rough start to the new year after a poor experience in 2015. Looking at returns based on calendar years doesn't make much sense, but is something that allows us to compare experiences over time. Markets actually move in cycles that usually encompass several years-both up and down (but thankfully mostly up).

\$SPX - S&P 500 Index - Monthly OHLC Chart



This chart is of the last twenty five years for the major index of the American stock market. We had two of the all-time worst bear markets during that period, but you can

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see that the trend is clearly up. As long as the world economy grows, there is no reason to believe such a chart in the future won't look the same.

We did some trading in Wealth Care LLC accounts in December and January. We've moved from a "passive" allocation in small foreign and Emerging Market stocks to one that is more active. The passive funds we like to use (they are low in expenses) were getting crowded with large mining and other larger companies that we think are less attractive for future gains than many smaller companies in different ventures.

The effect of having a concentration of certain stocks in a large "market capitalization weighted" index was illustrated well in 2015 with our very own S&P 500. In 2015, the regular market cap S&P funds were basically flat due to the over performance of the FANG (Facebook, Amazon, Netflix and Google) stocks, while the equal weighted S&P 500 index lost three percent. The "S&P 496" (the 500 without the FANG stocks) was down almost 5%.

In both the US and in foreign developed markets, we seek to spread our investments around using different factors, such as market size, value, momentum and more. In Emerging Markets, we had been comfortable to mostly (but not completely) own the general indices. But, we've changed our minds and are counting on some smart managers to help pick some winners (AQR funds, Polaris, Seafarer, and more).

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S&P 500 Index vs FANG

Daily Data 2014-12-31 to 2015-12-31





Doesn't Make Economic Sense

								
	Oil	Water	Regular Gasoline	Milk	Soda	Premium Coffee	Wine	Vodka
	\$36/bbl	\$1.30/Jug	\$2.00/gallon	\$4.99/Jug	\$1/can	\$3 / LargeCup	\$15 / bottle	\$20/ bottle
per gallon	\$0.83	\$1.30	\$2.00	\$4.99	\$11.43	\$19.20	\$75.71	\$100.94
Basis to Water	-\$0.47	\$0.00	\$0.70	\$3.69	\$10.13	\$17.90	\$74.41	\$99.64

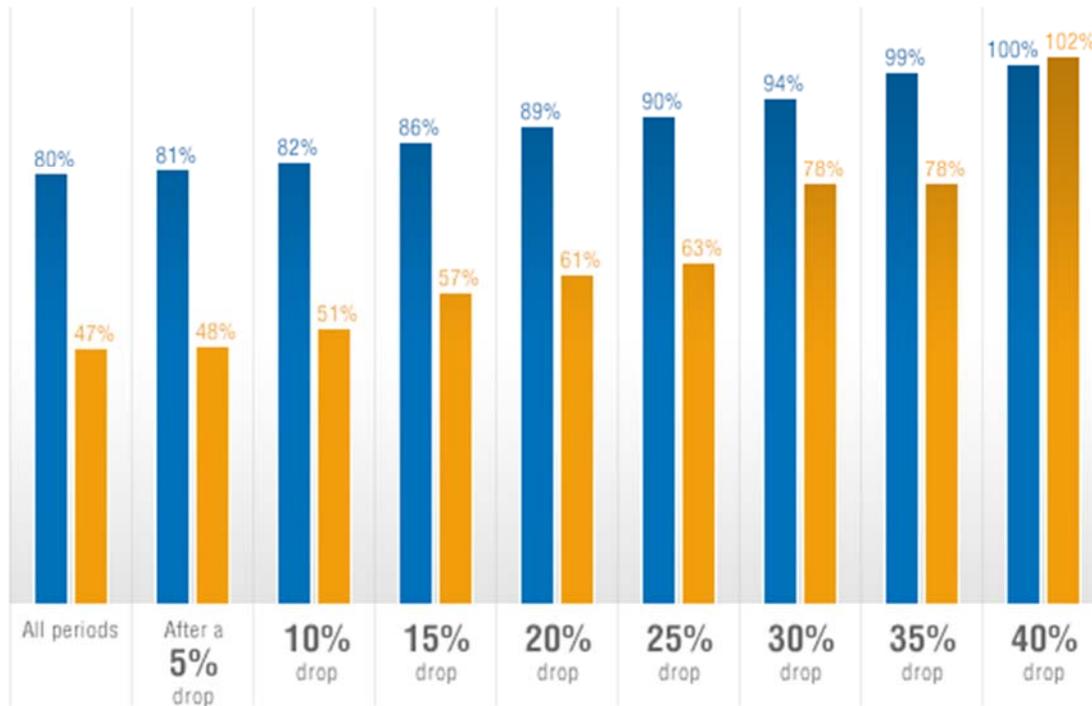
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After a fall...

■ Odds that the S&P 500 is higher in 5 years

■ Average subsequent 5-year return



Markets Over Time

The following article by author Nick Murray is very enlightening about all we and the markets have gone through over time.

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A Tale Of Four Decades 1975--2015

December 2015

We may assume that the 41 years 1975 through 2015 cover the great bulk of the our collective investing lifetimes:

1975

Saigon falls; President Ford escapes two assassination attempts within seventeen days. Margaret Thatcher becomes the first woman leader of Britain's Conservative Party. Andrei Sakharov, the great hero of Soviet resistance, wins the Nobel Peace Prize. *Saturday Night Live* debuts on my 32nd birthday, October 11. An American and a Soviet spacecraft link up in space; the event is memorialized on a beautiful ten-cent U.S. postage stamp.

- Global population: 4.1 billion, *fully half of whom live in extreme poverty, as defined.*
- U.S. population: 216 million
- U.S. real GDP: \$5.49 trillion

- S&P 500 year-end close: 90.19
- Earnings: \$7.71
- Dividend: \$3.73

1985

Gorbachev comes to power in the Soviet Union, and meets with President Reagan. The Internet domain name system is created. Windows 1.0 is published, and the first successful human heart transplant takes place. The song of the year is "We Are the World." In the greatest marketing catastrophe since the Edsel, the Coca-Cola Company introduces New Coke. A first class U.S. postage stamp costs twenty-two cents.

- Global population: 4.85 billion
- U.S. population: 238 million
- U.S. real GDP: \$7.71 trillion

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- S&P 500 year-end close: 211.28
- Earnings: \$15.68
- Dividend: \$8.20

1995

The Oklahoma City bombing is the greatest domestic terrorist atrocity in American history. O.J. Simpson's murder trial begins, and ends ten months later in his acquittal. Israeli Prime Minister Yitzhak Rabin is assassinated. The Rock and Roll Hall of Fame and Museum opens in Cleveland. Jerry Garcia dies. A postage stamp costs thirty-two cents.

- Global population: 5.7 billion
- U.S. population: 266 million
- U.S. real GDP: \$10.28 trillion
- S&P 500 year-end close: 615.93
- Earnings: \$37.70
- Dividend: \$14.17

2005

Hurricane Katrina devastates an American land mass larger than Great Britain. Saddam Hussein goes on trial for his life. July 7 becomes London's 9/11, as coordinated attacks on the bus and subway system claim 52 lives. Pope John Paul II dies; he will be canonized only nine years later. A postage stamp costs thirty-seven cents.

- Global population: 6.5 billion, *but by the turn of the century, the rate of extreme poverty has fallen to one person in three.*
- U.S. population: 296 million
- U.S. real GDP: \$14.37 trillion
- S&P 500 year-end close: 1,248.29
- Earnings: \$76.45
- Dividend: \$22.38

2015 to 11/23

A radical Islamic faction, ISIS, casts the Middle East into chaos, and carries out terrorist atrocities in Paris and elsewhere. Refugees pour into Europe. The world's leading nations reach an accord with Iran on its nuclear development program. Yogi Berra dies. A postage stamp costs forty-nine cents.



- Global population: 7.29 billion, *less than one in ten of whom live in extreme poverty.*
- U.S. population: 322 million
- U.S. real GDP through 9/30/15: \$16.39 trillion

- S&P 500 as of 11/23/15: 2,086.59
- Earnings (full-year estimate): \$118
- Dividend (full-year estimate): \$43

This, then, is the tale of four decades:

- Global population up nearly 80%, with extreme poverty slashed from one human in two to one in ten, creating wave upon wave of new middle class consumers.
- U.S. population up by half, and gaining a new person (through net births and migration) every fourteen seconds. And still almost unimaginable room to grow: population density per square mile in this country is 85, compared with almost 300 in France, 590 in Germany, 680 in the UK...and 870 in Japan. Staggering natural resources, with mineral rights vested in the landowner. A hundred years' worth of hydrocarbon energy reserves.
- Real GDP more than tripled, on only a 50% population increase—meaning real GDP per capita has soared.
- The S&P 500 rose more than twenty times, on an earnings increase in excess of fifteen times and a dividend boost approaching twelve times. Far more significantly, these gains must be measured against an increase in the general level of consumer prices scarcely more than four and a half times. *Surely this is the greatest accretion of real wealth by the greatest number of people in the history of the world.*

What are the megatrends underpinning this spectacular economic and financial progress? Well, there are two, and of course they form a virtuous cycle. They are *the spread of the free market*, as liberty vanquished communism and most extreme iterations of socialism during this period, and *exponential progress in information technology*. (Today, a middle school child carries in her backpack a smartphone with more computing power than the state-of-the-art mainframe had in 1975.) This cycle continues apace.

Credit Card Insurance Coverage

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I had the “opportunity” to file some claims for travel disruption and for extended warranty coverage. I have several credit cards that offer this coverage.

All I can say is that my efforts were a complete waste of time. The trip interruption insurance claim required specific letters from the airline that were just not worth the time or effort. The extended warranty for a \$100 coffee maker required a “visit to a diagnostic center to establish whether or not the damage was something that would have been covered under the original warranty. If not, I’d be responsible for the cost and time of the “diagnostic”.

I think this “insurance” is worthless. If you have had a different experience, please let me know.

A Curation of “Best Websites”

<http://techmazic.com/best-websites/>

The 37 Best Websites To Learn Something New

<https://medium.com/life-learning/the-37-best-websites-to-learn-something-new-895e2cb0cad4>

Random Notes

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I realize this is hardly classical wisdom, but I see two big problems with watching one's investments too closely. First, investors tend to become more nervous, especially in a downturn, which causes unnecessary stress — and studies show that stress causes investors to make costly changes to their investment mix. Second, investors tend to chase “hot” returns, buying more of an investment after a big run-up and selling after a downturn. That's a formula for financial disaster.-John Montgomery

My biggest takeaway from economics is that the past wasn't as good as you remember, the present isn't as bad as you think, and the future will be better than you anticipate. Morgan Housel

Marc Cuban on winning the Powerball lottery:

If you weren't happy yesterday, you won't be happy tomorrow. It's money. It's not happiness. If you were happy yesterday, you are going to be a lot happier tomorrow. It's money. Life gets easier when you don't have to worry about the bills.

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