Wealth Care LLC Monthly Commentary-June 2016

Investment Thoughts

Investing well is a long process that takes many years to bear fruit. The article below takes a look at the benefits of diversification outside of the United States over the last twenty years.

Mean Reversion From the Lost Decade

by Ben Carlson

A decent bull market sandwiched between two of the most brutal bear markets in history produced one of the worst 10 year stretches ever in the S&P 500* in the first decade of the 21st century. Many investors labeled the 2000s as the "lost decade" for stocks. Considering the S&P lost around 1% a year in this time, it's hard to argue with that classification.

However, this is just one group of stocks. Other markets, asset classes and regions of the world did much better during this period:

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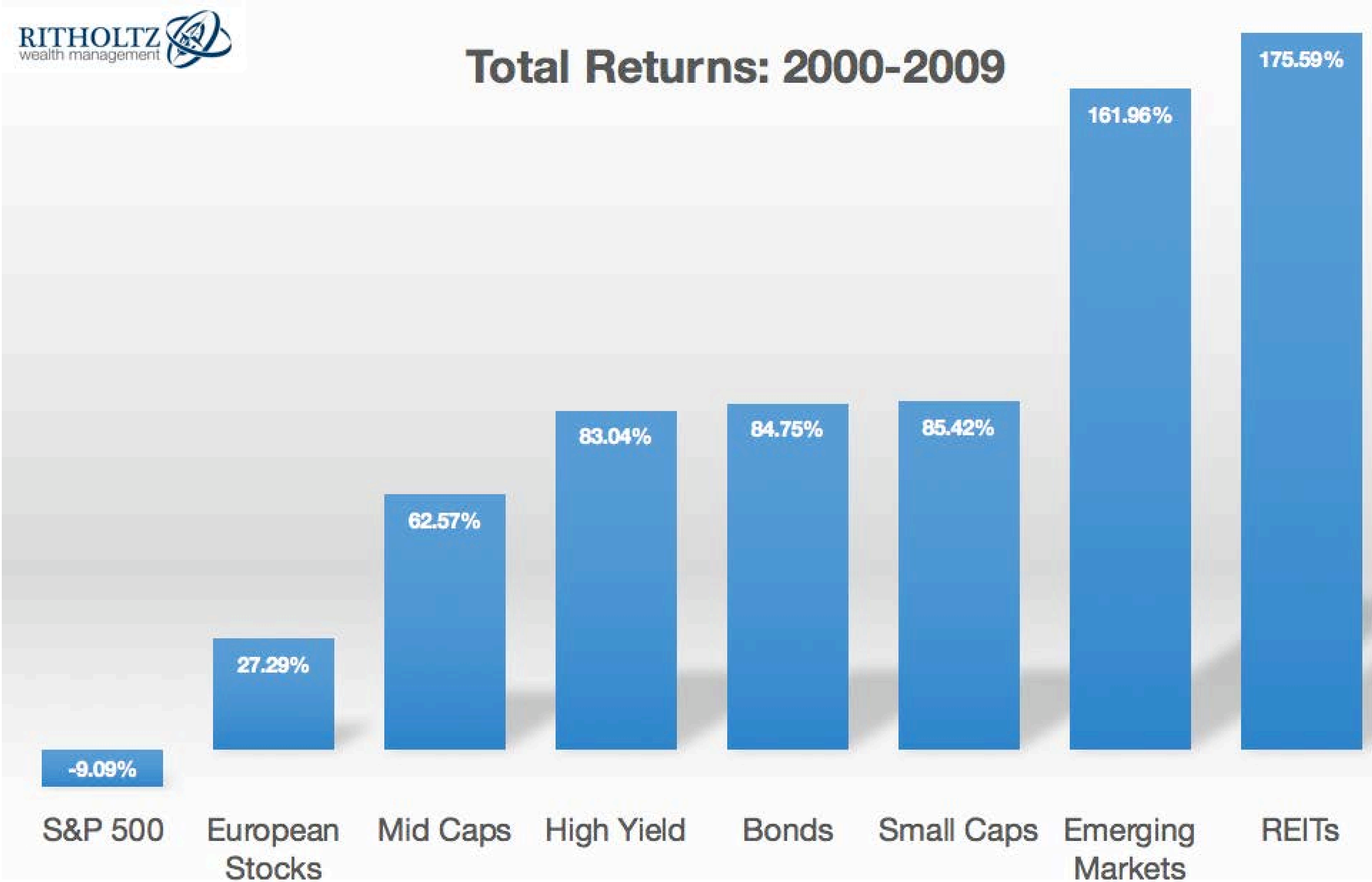

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Nothing lasts forever in the markets and the follow-up to the lost decade has seen some massive mean reversion in these standings, most notably between the S&P 500 and Emerging Markets:

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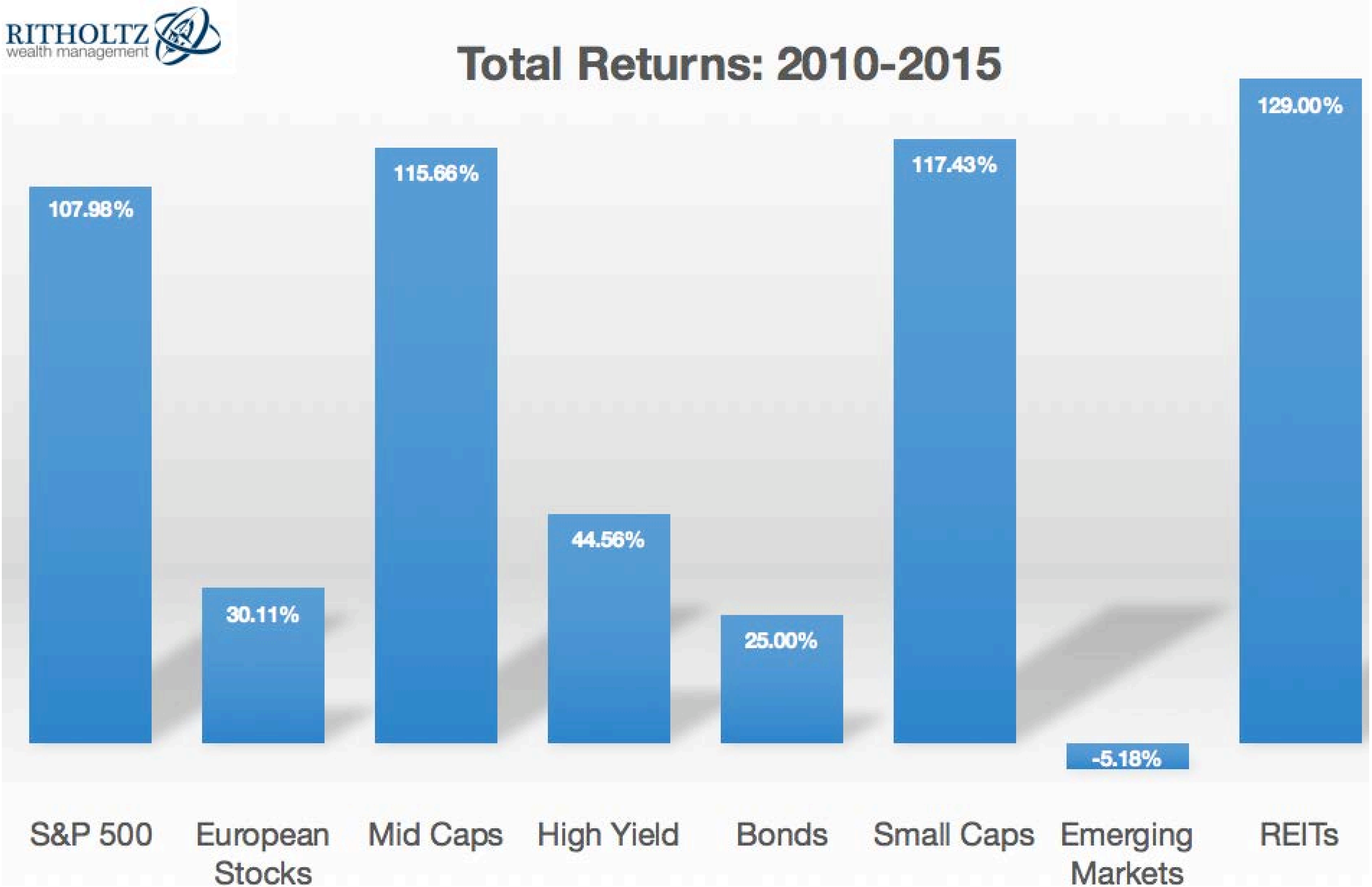

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To bring things full circle, here are the returns for the six year period preceding the lost decade:

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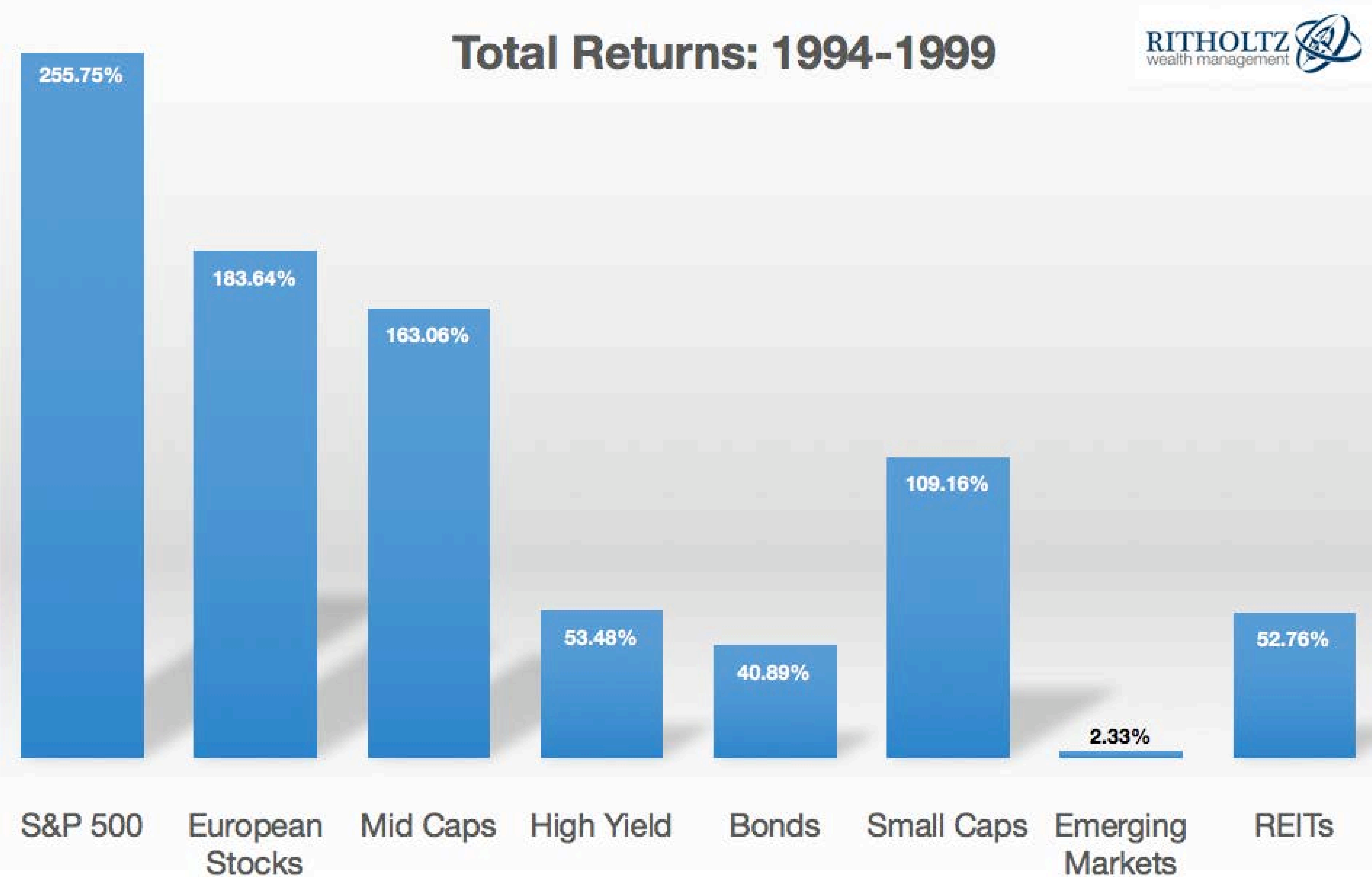

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The cycle of great performance-terrible performance-great performance in the S&P 500 is pretty striking in these numbers. Emerging markets are the exact opposite with a streak of terrible performance-great performance-terrible performance. Apparently un-correlated returns do still exist in a more globalized financial world.

A few more thoughts on these numbers because I always find the cyclical nature of asset returns to be fascinating:

- The S&P 500 and emerging market returns offer a clean example of mean reversion in action, but not all of these markets exhibited the same boom-bust cycle. REITs were the strongest performers during each of the past two periods (perhaps making them a candidate for future mean reversion?).
- Even during seemingly terrible decades such as the 2000s, we can still see certain markets perform well (EM, REITs and bonds). And even during seemingly amazing decades such as the 1990s, we can still see certain markets perform poorly (EM).

- The total returns for these various markets are all over the map. However, if you were to simply take the average of an equal weighted portfolio of these eight different markets you would get a total return stream that is much more stable for each time frame:

Equal-Weight Portfolio	Total Returns
2010-2015	67.01%
2000-2009	91.13%
1994-1999	101.56%

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- Risk assets are unpredictable and yes, risky. Bonds can outperform stocks at times. Lost decades are going to happen in certain markets. Higher expected returns don't always translate into actual higher returns in the real world because nothing lasts forever and trees don't grow to the sky.
- Diversification isn't just about spreading your bets and ensuring that you're likely to participate in the best performing asset class or strategy; it's about ensuring that you're not overly exposed to the worst performer.

Saving More or Investing Well?

From Writer Michael Blatnick-an illustration of how much more saving counts than how much you earn on your savings:

The chart below shows a few different scenarios: A portfolio that contributes $5,000 every year that earns 4% and a portfolio that contributes $5,000 a year that earns 6%. It also shows a portfolio that earns 4% and 6%, but raises the contribution by 5% a year. Finally, I'm showing portfolios that earn 4% and 6% but raise the contribution each year by 10%.

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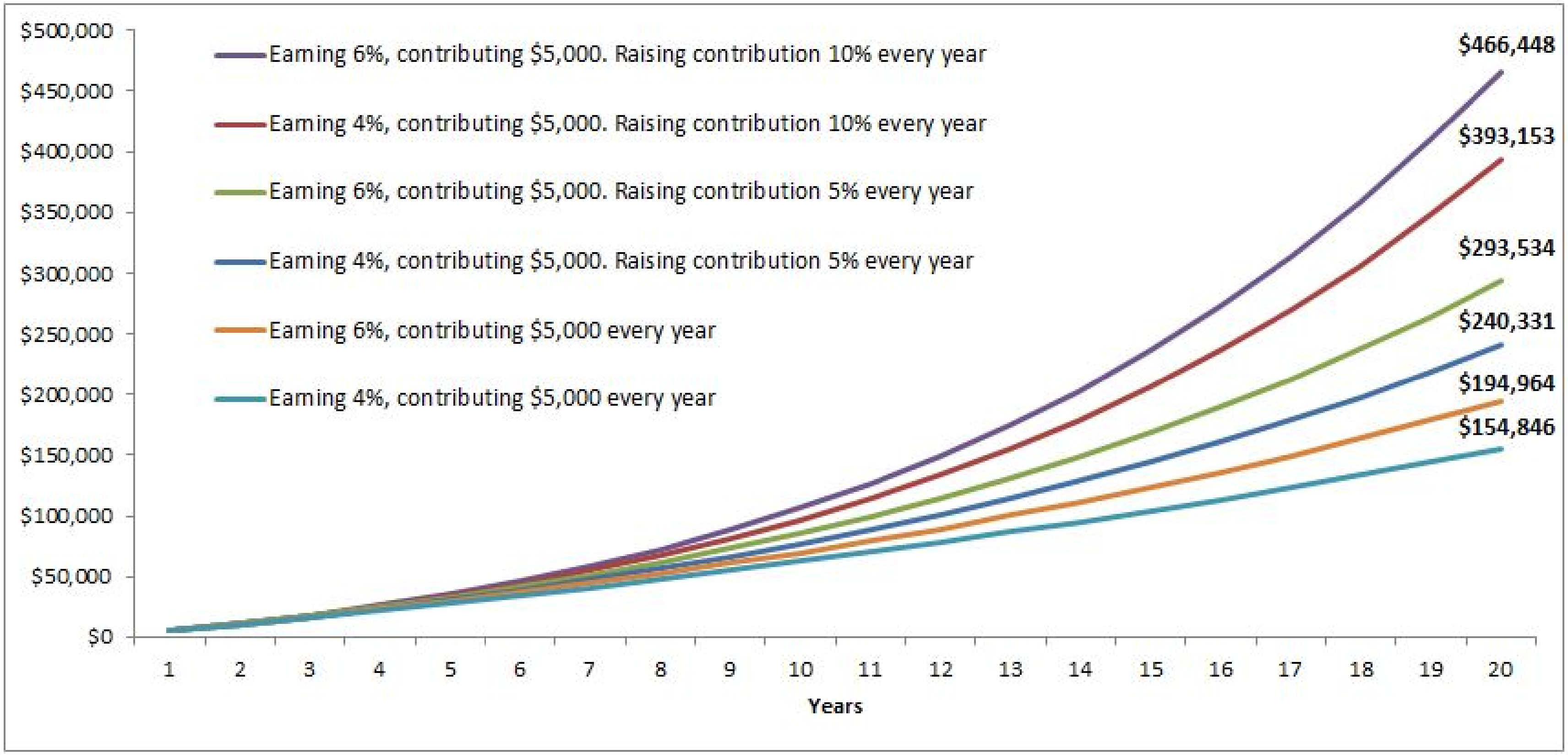

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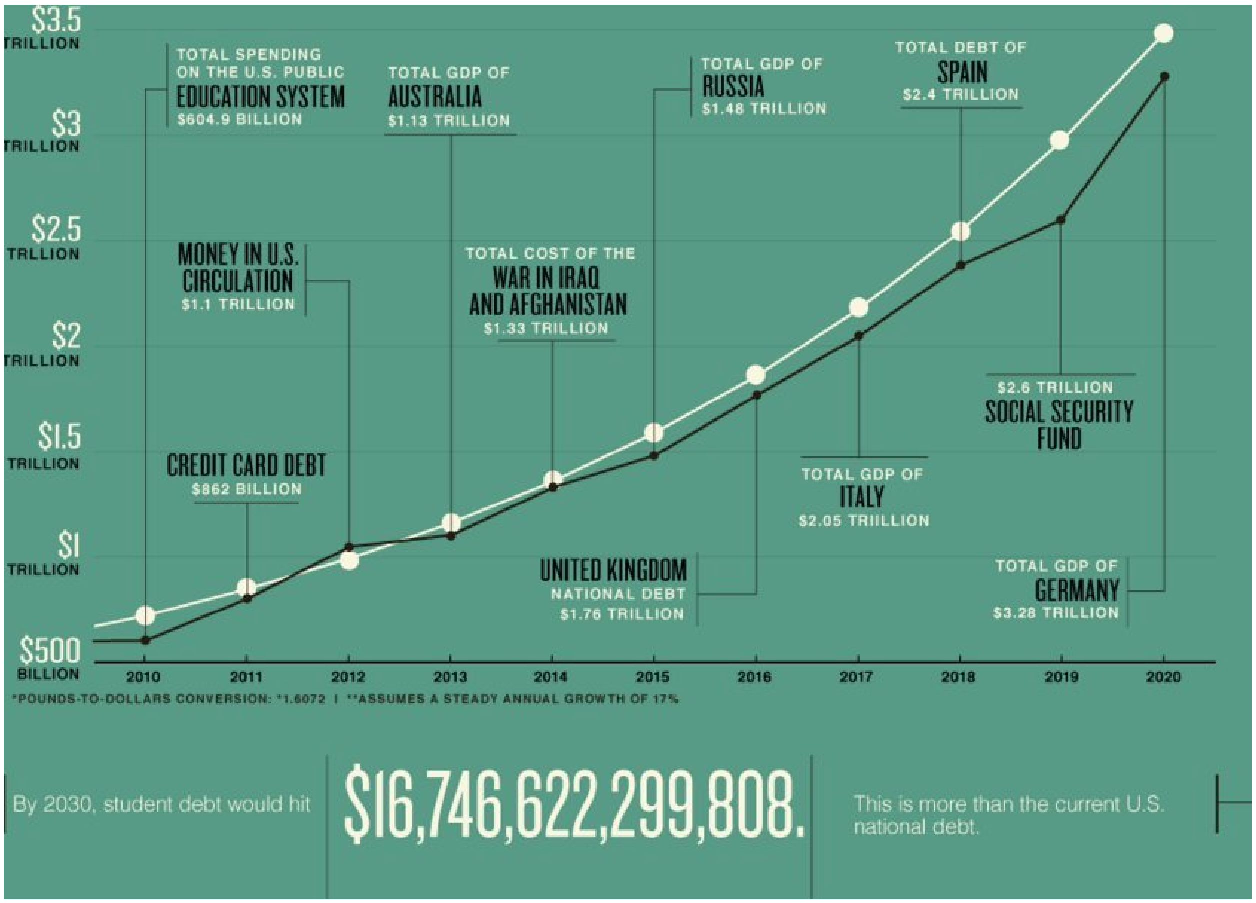
The Extent of Student Debt



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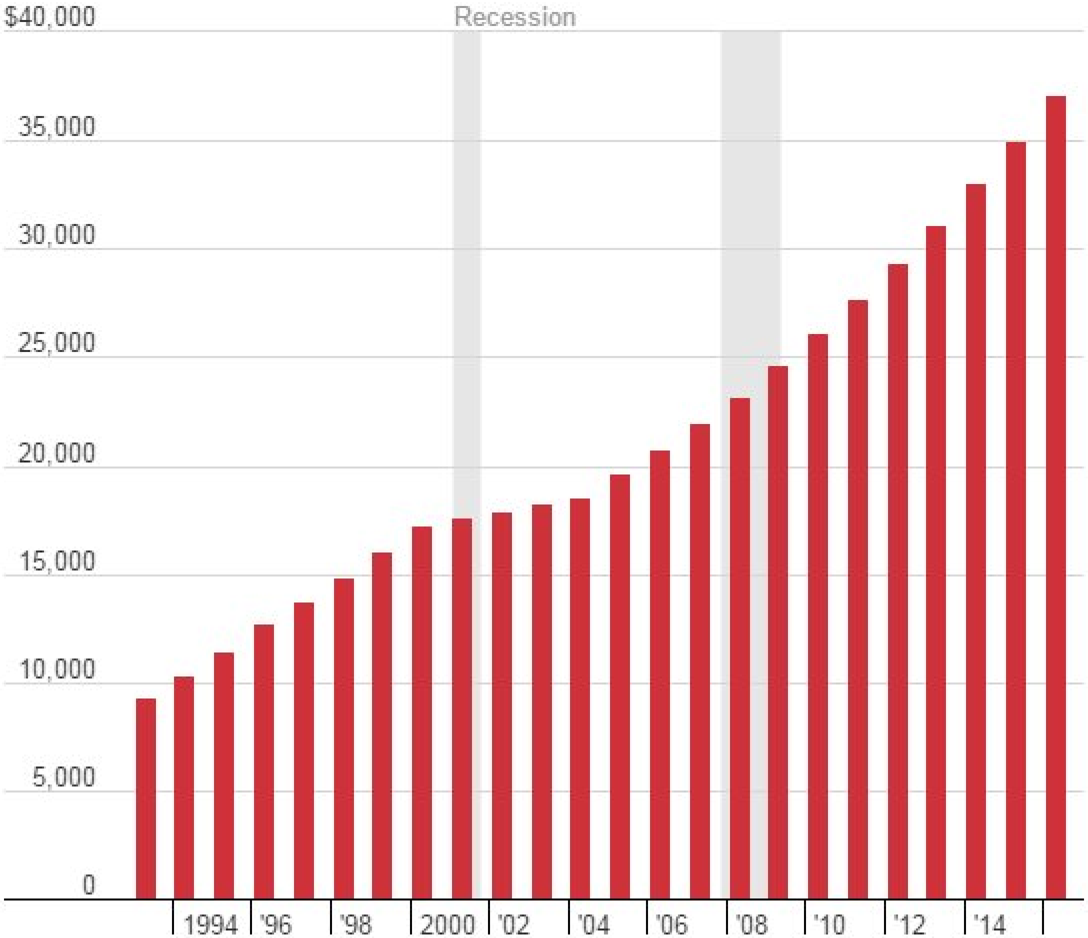
Head of the Class

Average debt per borrower in each year's graduating class



Source: Mark Kantrowitz

THE WALL STREET JOURNAL

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Computer Security

Over the last few months a few members of the Wealth Care LLC community have had their email accounts "hacked." This can be a nightmare. I'd urge you to use long and somewhat complex passwords or a password program like LastPass or Dashlane.

Never click on a link in an email from a bank, credit card company etc.-no matter how official it looks.

Sites of Interest

The Nerdwriter

A series of youtube videos explaining a wide variety of topics. Fascinating

https://www.youtube.com/channel/UCJkMlOu7faDgqh4PfzbpLdg

Looks What's Coming-Virtual Reality is Here

http://digg.com/video/magic-leap-demo-video?utm_source=nextdraft&utm_medium=email

An Excellent Essay on how the rising tide of economic progress and innovation lifts all boats. A refutation on income inequality as the only thing that counts.

https://www.commentarymagazine.com/articles/pikettys-crumbs/

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Random Thoughts:

If you're smart, you know a lot. If you're wise, you know all you know is a little. Ben Carlson

Always remember: Success is due to your intelligence and effort. Failure is due to the Federal Reserve and the party you didn't vote for.-Morgan Housel

The number one best thing about getting older is all of the stuff you no longer bother to get upset about.-Freddie DeBoer

Here are some good examples of things you probably shouldn't care about in your financial life:

- Your relative portfolio performance against a meaningless index or benchmark.
- How billionaire hedge fund managers are currently positioning their portfolios.
- How much money your brother-in-law is making.
- What Twitter traders are telling you about the markets.
- The next fiscal cliff or government shutdown.
- How many days in a row the market has risen or fallen lately.
- Whether or not Herbalife is a Ponzi Scheme or the buy of a lifetime.
- The brand new car or boat your neighbor just purchased (on credit).

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- That really great penny stock your co-worker told you they just bought because of an email tip they received.
- How much your retirement portfolio has gone down (or up) in the past quarter.
- How much money people claim to earn on Fan Duel every week.
- People who call for a market crash every single year.
- The couple you read about who lucked out and put their entire life savings into Apple stock a decade ago.

~~Ben Carlson

Housework can't kill you, but why take a chance?
-Phyllis Diller

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