Wealth Care LLC Monthly Commentary-September 2016

Investment Thoughts

Stock Markets remain near all-time highs and our portfolios are pleasantly better than in 2015. Emerging Markets are the "hottest" asset allocation after lagging for years (no surprise). The financial media is as usual, pessimistic, but there is nothing to suggest that we are in for a significant drop in prices. If anything, we might see continued market returns until the point that people are again excited to buy stocks (which will be the time to become cautious).

Stock Market Returns Are Lumpy

by Ben Carlson

"The average long-term experience in investing is never surprising, but the short- term experience is always surprising." – Charley Ellis

The stock market has basically gone nowhere for a while now. According to the sharp team over at Bespoke Investment Group, the S&P 500 has crossed the 2100 level to the upside 25 times over the past 18 months.

Investors can start to get fidgety during these slow periods where stocks seem to fluctuate but not make much progress. The thing is, stock market returns have always been lumpy. Historical returns always look great on paper, but the actual experience of living through them is never really close to the average results. Average is typically the exception, not the rule.

For example, take a look at the S&P 500 and how lumpy the returns have been over time:

Steven Podnos MD, MBA, CFP® P. 321.543.1099 E. Steven@wealthcarellc.com • Rachel Podnos J.D., CFP® P. 321-505-7592 E. Rachel@wealthcarellc.com

S&P 500: Total Returns	
1929-1932	-64.8%
1933-1936	186.9%
1937-1941	-35.6%
1942-1945	140.9%
1946-1948	1.8%
1949-1955	351.9%
1956-1957	-3.8%
1958-1965	199.4%
1966-1974	1.1%
1975-1976	69.6%
1977	-7.0%
1978-1980	66.3%
1981	-4.7%
1982-1989	294.3%
1990	-3.1%
1991-1993	53.9%
1994	1.3%
1995-1999	247.5%
2000-2002	-37.4%
2003-2007	81.7%
2008	-36.6%
2009-2014	156.4%
2015-2016	4.2%

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A similar pattern emerges when you look at foreign stocks:

MSCI EAFE: Total Returns	
1971-1972	80.5%
1973-1974	-33.2%
1975-1980	201.4%
1981-1982	-1.9%
1983-1989	537.2%
1990-1992	-23.8%
1993-1996	70.4%
1997	2.1%
1998-1999	53.2%
2000-2002	-42.8%
2003-2007	171.2%
2008	-43.1%
2009-2010	43.3%
2011	-11.7%
2012-2013	45.4%
2014-2016	-11.8%

And emerging markets:

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MSCI EM: Total Returns	
1988-1989	131.6%
1990	-10.6%
1991-1993	211.5%
1994-1998	-38.5%
1999	66.4%
2000-2002	-36.3%
2003-2007	390.8%
2008	-53.2%
2009-2010	113.4%
2011	-18.2%
2012	18.6%
2013-2016	-14.0%

Over these various time frames these markets returned 9.5%, 9.2% and 10.5% respectively on an annual return basis. What's not to like about those average results?

But you can see that the path to get to those averages has been anything but easy. Those return streams are extremely lumpy. They include losses. They include those periods when stocks went nowhere for some time. And they also include large gains.

Sometimes the gains last for years on end while other times they're short lived. The same applies to losses and sideways markets. Markets are a mixture of breath-taking gains, gut-wrenching losses and maddeningly dull periods where they make no progress whatsoever.

There are always going to be good reasons to not like investing in the stock market. Stock returns are inconsistent, they go down, they go nowhere, they don't go up as much as you would like and they rarely line up with your financial milestones by providing perfect entry and exit windows.

If you're invested in the stock market for long stretches of time the best advice I have to offer is this — get used to it. This is what happens. So it goes.

Steven Podnos MD, MBA, CFP® P. 321.543.1099 E. Steven@wealthcarellc.com • Rachel Podnos J.D., CFP® P. 321-505-7592 E. Rachel@wealthcarellc.com

INVESTORS ARE HUMANS, TOO. In the rest of our life, we readily acknowledge that emotions play a huge role. But when handling money, we insist we're entirely rational. Really? Here are some headscratchers that suggest otherwise:

1. Why do we concede that the car sitting out in the rain is a depreciating asset, and yet we're convinced that the house sitting in the rain is a great investment?
2. Why do people, who are so optimistic about everything else, rush to claim Social Security at age 62, suggesting they're pessimistic about their own life expectancy?
3. Why do we go out of our way to collect tax deductions, when these tax deductions might save us just 25 cents for every $1 we spend?
4. Why will people readily admit that their family life is in turmoil, and yet they'd never admit that their finances are a disaster?
5. Why do we buy the extended warranty in case the $300 television breaks, but we fail to buy disability, health and life insurance in case our body breaks?
6. Why do folks, who would never dream of going into debt to buy stocks, think it's entirely prudent to borrow 95% of the purchase price when they buy a house?
7. Why do we build diversified portfolios—and then get surprised when all of our investments don't go up at the same time?
8. Why do we spend hours researching which $100 hotel room to book, and yet we'll invest tens of thousands of dollars based on a five-minute cold call from a broker?
9. Why do we concede that we'd have no chance against a professional tennis player, and yet we imagine we can beat the market averages, even as most professional money managers fail?- Jonathan Clements

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Miscellaneous

How Do You Define Yourself?

https://www.youtube.com/watch?v=c62Aqdlzvqk

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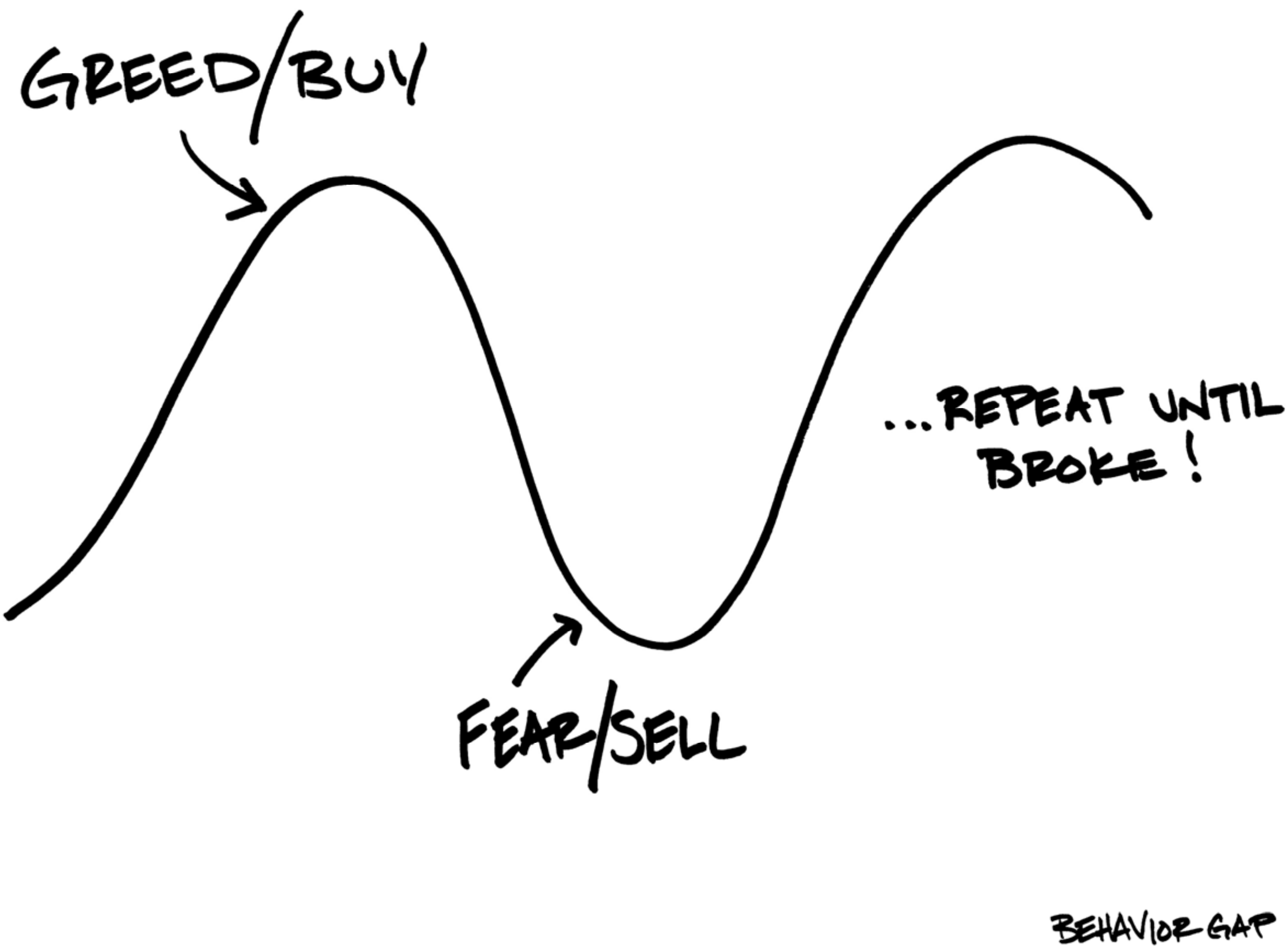
A Great Collection of Online Writing/Essays

http://tetw.org/

Spectacular Time Lapse Photography of Weather
https://www.dpreview.com/news/4861277900/vorticity-the-beauty-of-storm-chasing

Random Thoughts



-Carl Richards

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You can probably afford not to be a great investor -- you probably can't afford to be a bad one. – Morgan Housel

Steven Podnos MD, CFP® for Wealth Care LLC 9-1-2016

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