Wealth Care LLC Monthly Commentary-October 2017

Welcome Lauren Podnos!

Lauren Podnos CFP® will be opening our New York City office during October! Lauren brings eight years of working in financial services, including a stint at Fidelity Investments. More about Lauren in our November commentary. She can be reached at Lauren@wealthcarellc.com

Tax Reform

Tax reform is looking likely at this writing. The biggest effect might be lower corporate taxes. This will have two reactions-first, repatriation of several trillion dollars held overseas to avoid our current high tax rates. Second, higher corporate profits (tax is an expense) which should support US stock prices. On the individual side, those of us in states without a state income tax should see a modest decrease in taxes. Those in states with a high state income tax may end up with a "wash". But, the final legislation is far from certain. We will be letting every Wealth Care LLC family know how best to work with the final legislation on an individual basis!

Investment Thoughts

An amazing lesson from Buffett on his cake day

Nick Murray says "The ability to distinguish between volatility and loss is the first casualty of a bear market."

I turned to one of my favorite passages of his masterpiece *Simple Wealth, Inevitable Wealth* this morning as turmoil from overseas and the commodity markets made its way through the

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headlines. Nick relays a great anecdote about how much money one investor personally "lost" during the last Russian Ruble crisis in the summer of 1998…

$6,200,000,000

Yes, that's right, it's six billion two hundred million dollars. A very large sum of money, wouldn't you say? Now what, you ask, does it represent?

It is roughly how much Warren Buffett's personal shareholdings in his Berkshire Hathaway, Inc. declined in value between July 17 and August 31, 1998. And now for the six billion dollar question. During those forty-five days, *how much money did Warren Buffett lose in the stock market?*

The answer is, of course, that he didn't lose anything. Why? That's simple: he didn't sell.

In July and August of 1998, I was doing time at a brokerage firm on Long Island as a summer intern. The brokers were panicking and the partners began yelling at them to get off margin and help maintain order in the Asia Pacific technology stocks in which the firm made markets. It wasn't working, from what I could surmise. The simultaneous meltdown of several Far East currencies and then the toppling of the Ruble proved too much for US markets and eventually the contagion found its way here.

People forget that, in the midst of the massive late 1990's bull market, we had this two-month bear market episode in which the S&P 500 dropped by a quick 25 percent. The giant Nobel laureate-run hedge fund, Long Term Capital, imploded as a result and Greenspan was forced to slash rates overnight while the New York Fed arranged a Wall Street-subsidized bailout. Things got back to normal by the end of the fall, but, for a minute there, the panic was palpable and it eventually slammed everyone.

I bring this up because there are some parallels between then and now (along with some highly notable differences, as always). The drama surrounding the Russian economy, currency and stock market – along with the dual crash in crude oil – has shaken confidence around the world. Volatility has spread throughout the US stock and bond markets in recent days. History tells us it can get significantly worse really quickly before the storm passes – a la the currency crises of the summer of 1998. At the end of the day, we just don't know.

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Warren Buffett didn't change his plans or blast a great big hole in his portfolio that summer. He did not turn temporary declines into permanent losses. Instead, he stuck to his investment strategy while so many others lost their grip.

Buffett didn't have any information about the future then just as we don't today. But what he did have, according to Murray and all of his biographers, was an incredibly even-keeled temperament. It is Buffett's temperament *and not his analytical skill* that allows him to ride out episodes like this. But more than that, it is Buffett's ability to distinguish between *volatility* and *risk*.

One of the things that probably helps him do that is his own experience with difficult markets. Murray points out us that Buffett had been through the crash of October 1987 and had only "lost" $347,000,000 that day. He didn't sell during that crash either. This is the precise reason why, 11 years later, Buffett was even in a position to have a temporary drawdown of $6.2 billion.

The smile never left his face, and it's easy to see why. Berkshire Hathaway closed on October 19, 1987 at $3,170 a share. On August 31st, 1998, it closed at $60,500. And just the other day, I saw it at $150,000.

In case you're keeping score, Berkshire's A shares go for $218,000 as I write. Buffett's biggest risk would have been allowing the momentary madness of a market panic to divert him from the bigger picture.-Josh Brown (blog)

Simple Wealth, Inevitable Wealth (NickMurray.com)

Ten Years Ago This Month

STILL MADE MONEY – The S&P 500 peaked on 10/09/07 before beginning a 17-month bear market that saw the raw index fall 57% before bottoming on 3/09/09. An investment in the S&P 500 on 10/09/07 (i.e., at the market's top and before the fall) is up +100% (total return) as of the close of trading on Friday 9/22/17 (i.e., nearly 10 years later), an annualized return of +7.2% per year. The S&P 500 consists of stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

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Emergency Preparedness

After eight days without power and five days without water due to Hurricane Irma, we could see how well (or not) prepared we were!

In retrospect, we lacked only some Purell for hand washing (remember, clean water was a valuable commodity) and a whole house generator would have really helped. The latter is expensive and is to be considered if you live somewhere with unreliable power (as we do-lots of trees near our power lines).

I think of keeping a good supply of emergency materials just as I do other "insurance." Just as I pay thousands of dollars a year for homeowners, auto, liability, life, and disability insurance I hope I don't use-having a few hundred dollars of emergency supplies around "in case" is just the same action.

Here's a good link to buy preassembled supplies, as well as giving access to official lists of emergency preparedness actions. http://thesweethome.com/reviews/emergency-preparedness/

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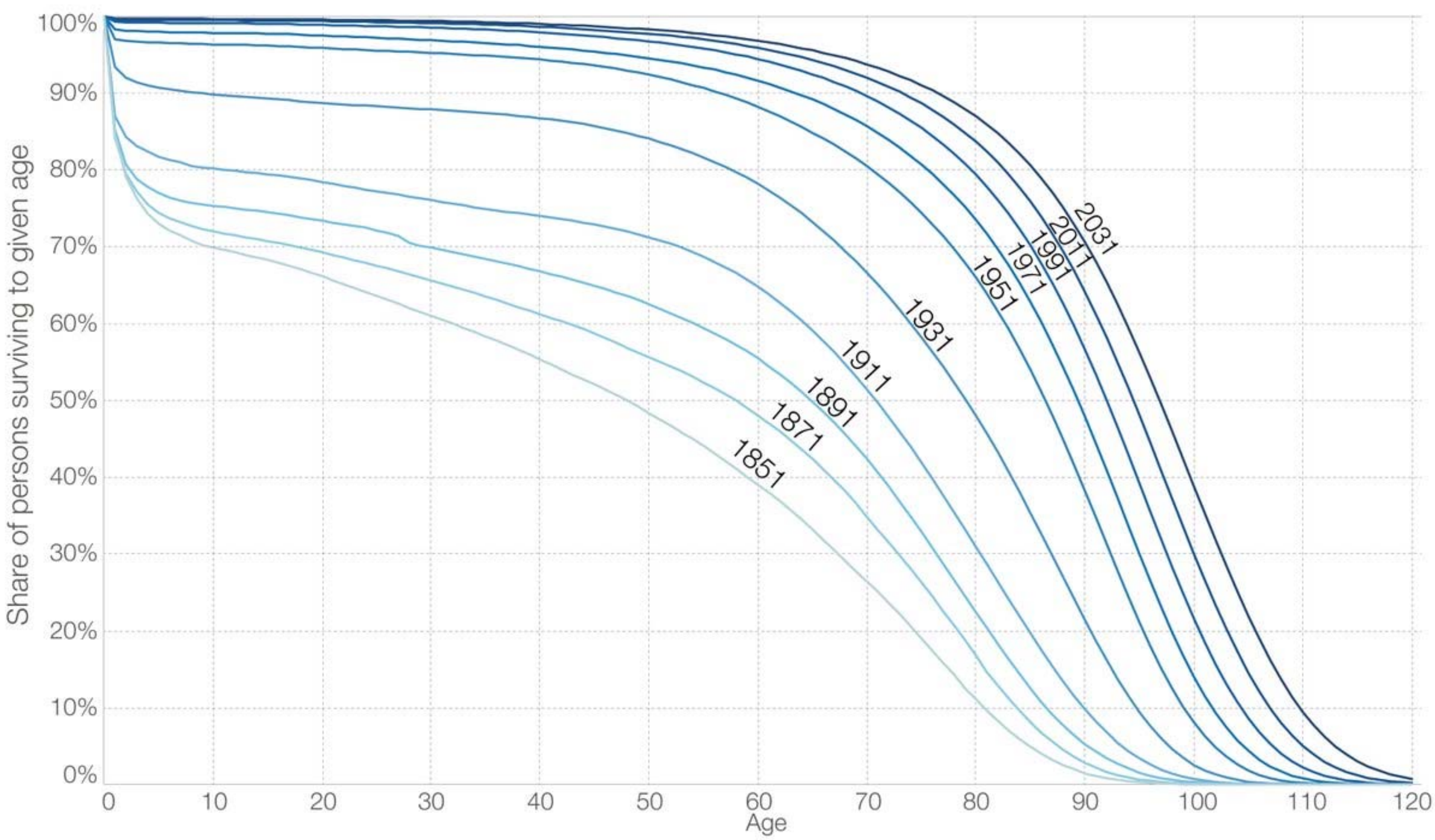
How Long Will We Live?

Share of persons surviving to successive ages for persons born 1851 to 2031, England and Wales

Our World in Data

according to mortality rates experienced or projected, (on a cohort basis)



Data source: Office for National Statistics (ONS). Note: Life expectancy figures are not available for the UK before 1951; for long historic trends England and Wales data are used

The interactive data visualization is available at OurWorldinData.org. There you find the raw data and more visualizations on this topic.

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Life as a Subscription

Spotify, Netflix, Amazon Prime, Kindle Unlimited-much of my life is by subscription. How nice that is-I can listen to millions of songs with a click, watch thousands of movies and TV shows at

ease, and read more books than ever before possible- transmitted to me anywhere on the globe in seconds.
Rachel tells me that you can now have a car by subscription in Washington-unlimited use of cars parked around the city for one monthly price.

You can even rent corporate jets by the hour. What's next?

How Wealthy is Europe Compared to the United States?

Once purchasing power among the US states is taken into account, we find that Sweden's median income ($27,167) is higher than only six states: Arkansas ($26,804), Louisiana ($25,643), Mississippi ($26,517), New Mexico ($26,762), New York ($26,152) and North Carolina ($26,819).

We find something similar when we look at Germany, but in Germany's case, *every single* US state shows a higher median income than Germany. Germany's median income is $25,528. Things look even worse for the United Kingdom which has a median income of $21,033, compared to $26,517 in Mississippi.

Meanwhile, Colorado ($35,059) has a median income nearly identical to Switzerland ($35,083), and ten states (Connecticut, Iowa, Maryland, Minnesota, New Hampshire, North Dakota, South Dakota, Utah, Virginia, and Washington State) show higher median incomes than Switzerland. Luxembourg ($38,502), on the other hand, shows a median income higher than every state except New Hampshire ($39,034).

None of this analysis should really surprise us. According to the OECD's own numbers (which take into account taxes and social benefits, the US has higher median disposable income than all but three OECD countries. Sweden ranks below the US in this regard, as does Finland and Denmark.

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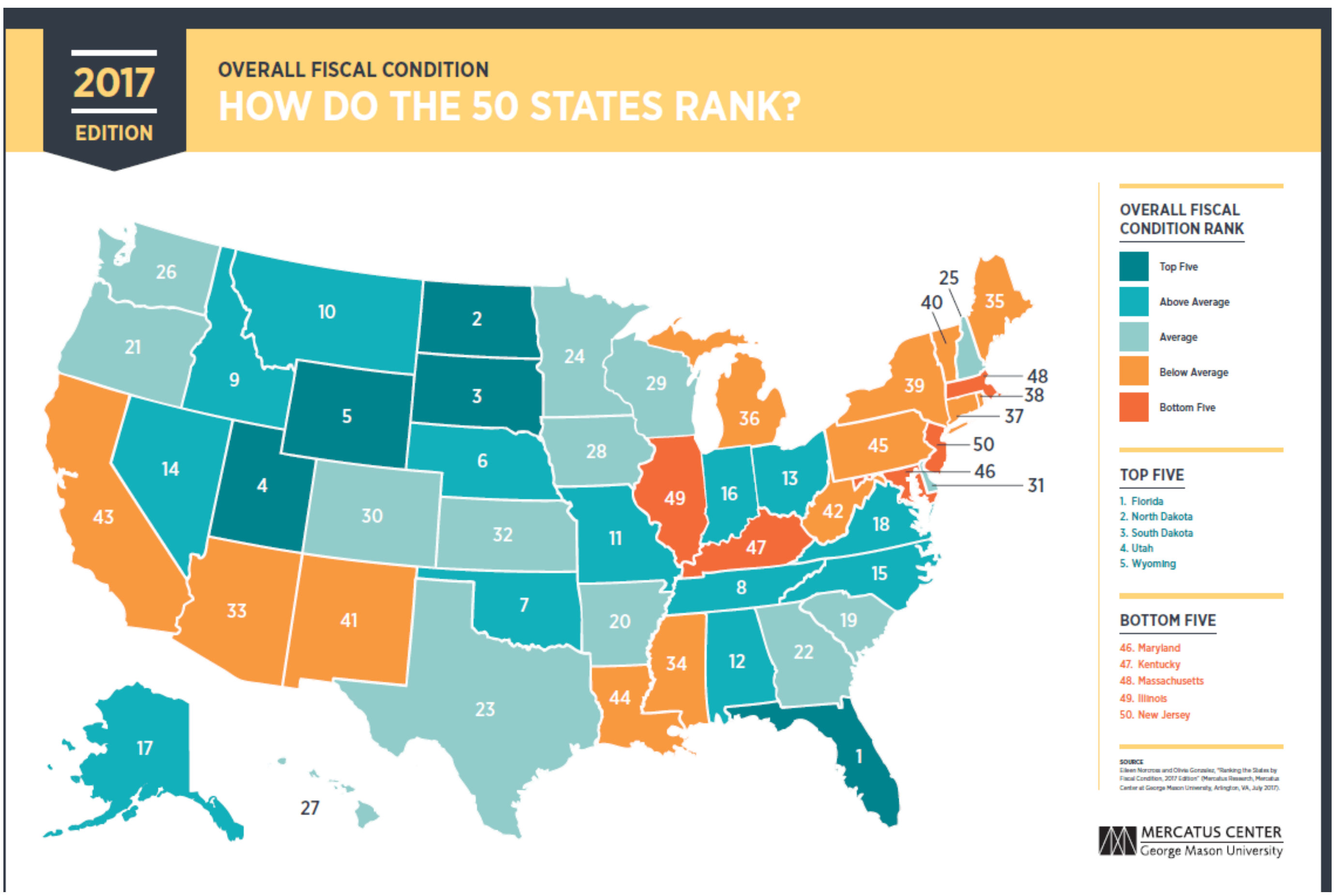
The fact that the median level in the US is above most OECD countries thus makes it no surprise that most of these countries then rank below most US states. The US states that have income level above the median US level will, not surprisingly, outpace many OECD countries by a considerable margin.

Underfunded Pensions by State



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Comment-I expect to see more municipal defaults (both cities and maybe states) as promises to retirees crowd out current income. Best I can tell, Illinois, California and Connecticut are already there. Steve

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Do You Think You are a Great Stockpicker?

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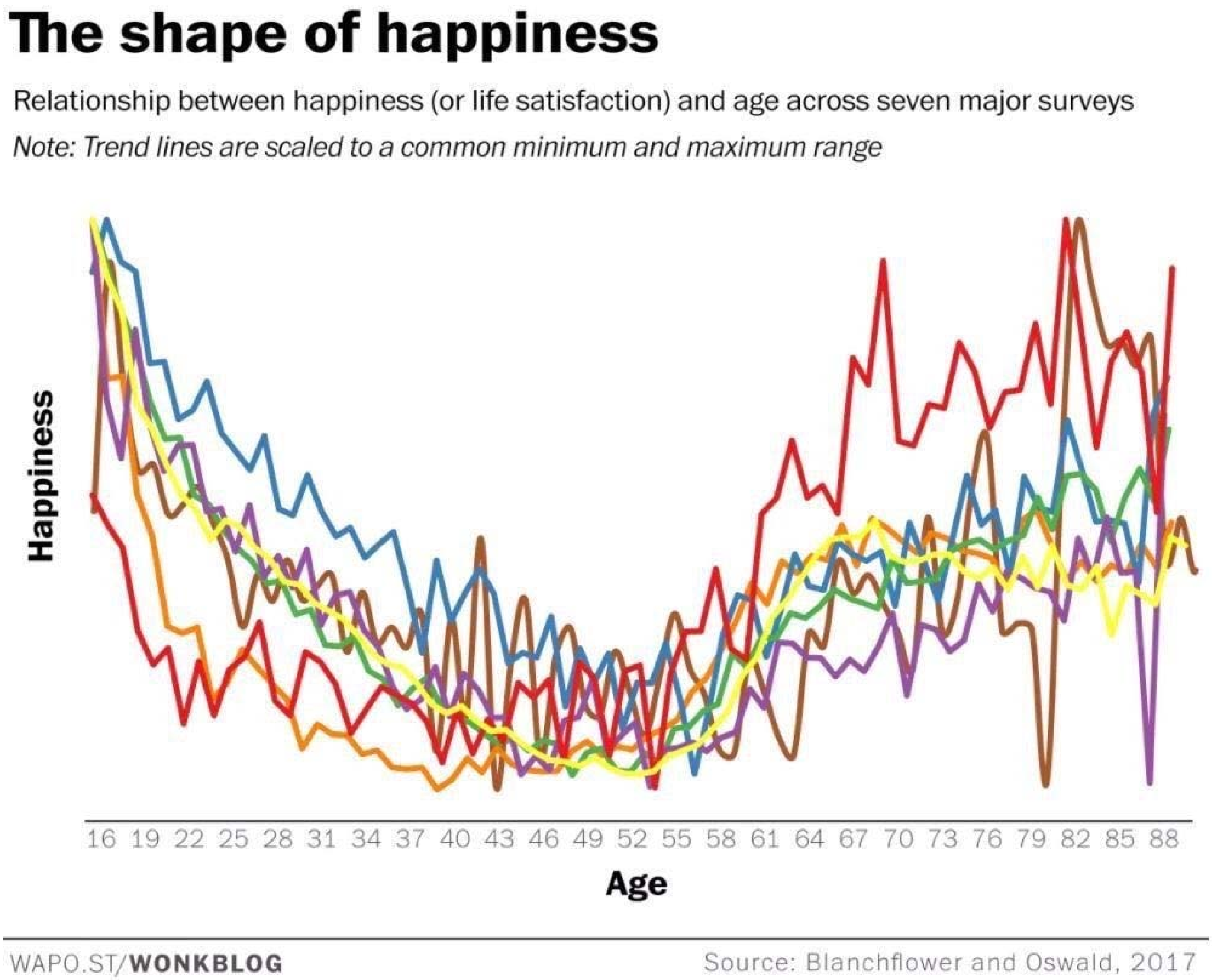
Random Notes

Happiness plummets in middle age and peaks once you qualify for early bird dinner specials.



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The problem with the gene pool is that there is no lifeguard.-Steven Wright

Before making a major purchase, we should ponder the items we're choosing not to buy.-
Jonathan Clements

Some Girls are Hard to Impress:

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

Steven Podnos MD, CFP® for Wealth Care LLC 10-1-2017

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