Wealth Care LLC Monthly Commentary-November 2017

When Will the Market "Crash"?

As the American (and most foreign) stock market continues on a steady climb upwards, I'm seeing more "reports" in the press about a coming "crash." I'm also getting some comments and inquiries from some of you. So, here is what I think.

First, a "crash" suggests a drop in prices that is extreme. We know that it is normal historically for the market to drop in price up to 20% about every five years (since WW2). So a "crash" has to be more than that, right? A crash also suggests that the drop in prices occurs too quickly to avoid it.

Let's look back at the last three "crashes" I can think of:

In **1987**, we had the flash crash in one day when the DOW index dropped 21% (508 points) on Black Monday. There are many arguments as to the cause of the price movement, so we can't know for sure. But! The market was actually up over 5% for the entire year, and the great bull market of the 80s and 90s continued strongly after that. Lesson? Not that I can see.

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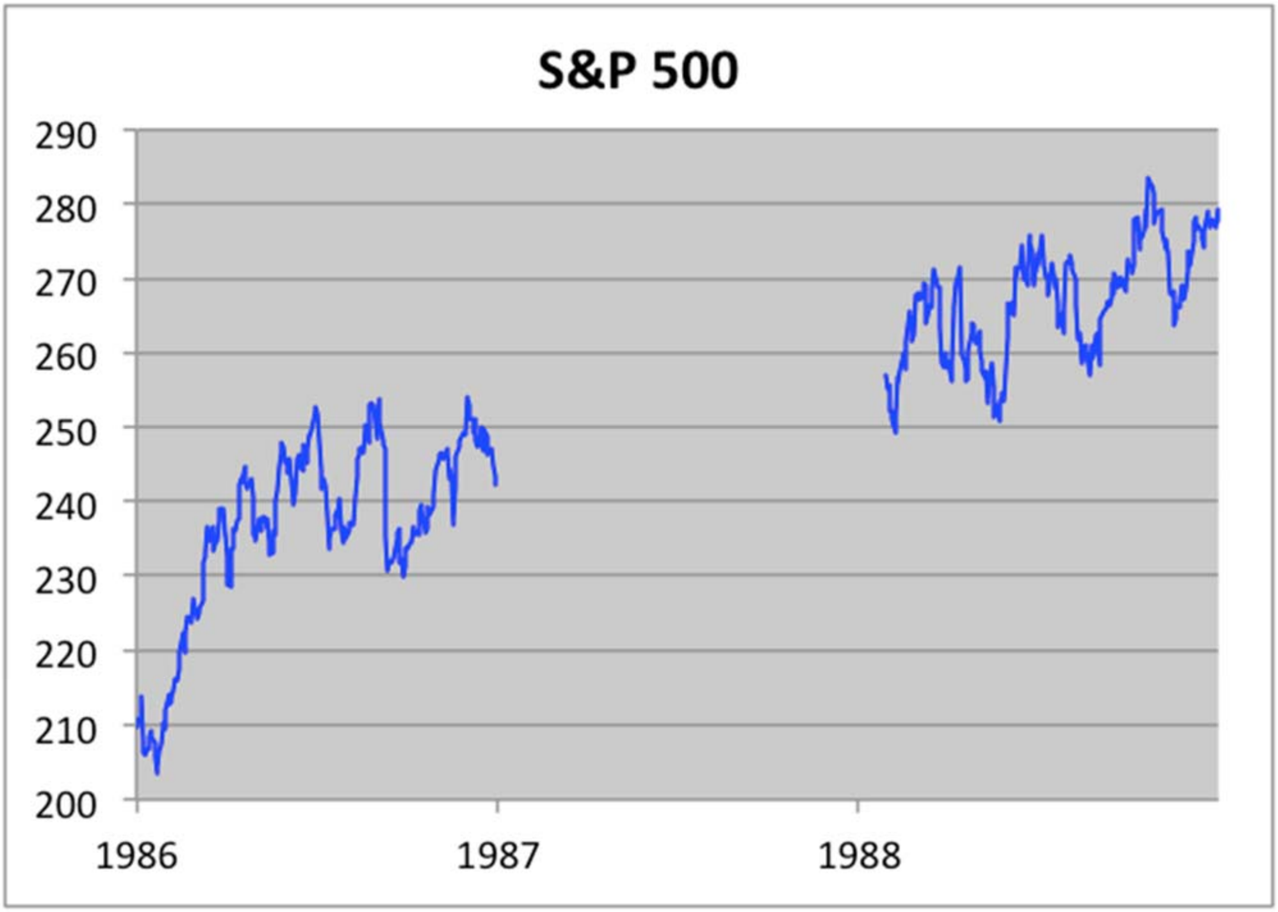
Here's another way to look at the 1987 crash:



In **2000**, we had the great tech stock collapse, followed over the next two years with a general drop in the entire stock market. I'm not a psychic, but this was relatively easy to see coming-although "when" was not as clear. All through the late 1990's stocks (especially tech/internet) were going crazy-people were quitting their jobs to day trade, etc. Valuations of the stock market (again, especially small companies and tech) were absolutely insane by historical standards. Lesson? Don't buy stocks in great quantities on the few rare occasions they have risen very rapidly and seem very expensive historically. Remember, stocks had been going up for almost 18 years at this point. Another lesson-if you are holding a diversified portfolio-meaning not only owning a portion of most of the stock market (not just tech in 2000) but also global stocks, you have done just fine by riding this drop out.

In **2007-2009**, we had a massive credit default and stock market decline due to credit issues in the housing industry. The drop occurred over many months before bottoming out in early 2009.

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There was nowhere to hide if you remained invested, and you just had to wait it out. As with tech stocks in the late 1990s, the valuation of real estate in many parts of the country was extreme in both speed and amount-so you could see something was wrong. But stocks were not overpriced and were just a few years from the severe lows of 2002. It was hard if not impossible to predict that stocks would be affected at all by the real estate issues, and much of the decline was due to emotional behavior (panic). Lesson? Hard to see it coming. Hard to know how long it would last or how bad it would get. But again, those who held on patiently have done just fine-no losses and nice gains since.

What about now? We have had a steady rise (except 2011 and 2015) in stock prices for eight years and valuations are approaching the higher limits of what is seen historically. But, this started with a generational bear market and extreme low valuations (2007-9, remember the market was less than a third of where it is now). If you go back twenty years (before the last two "crashes"), the return of the stock market is a little over 7% a year annualized, which is historically quite reasonable. So, none of us know if the market will "crash", or when it will, or how bad it could be. It seems unreasonable to invest (or not invest) based on any supposition that it will crash.

But, a drop of up to 20% (that's 4-6000 points on the DOW) would be normal and unpredictable. Unless history has changed, the most appropriate behavior would again be to buy stocks or at the least, do nothing.

Having said all this, we do believe that at times there is attractive pricing in some asset classes. For the last six years or so, foreign markets and especially emerging markets have been cheap in valuation compared to the US market. It was therefore attractive to invest there, but painful since these overseas markets did not begin to shine until the last two years. That is why being diversified is both frustrating but ultimately the smartest way to invest.

Just for fun, check out this page full of bearish "crash" prognostications from two years ago: http://www.businessinsider.com/category/bearish.

I'm always happy to discuss these and other thoughts with you! Steve

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36 Investment Truths by Ben Carlson

I like to remind myself of the following obvious investment truths on a regular basis:

1. If you need to spend your money in a relatively short period of time it doesn't belong in the stock market.

2. If you want to earn higher returns you're going to have to take more risk.

3. If you want more stability you're going to have to accept lower returns.

4. Any investment strategy with high expected returns should come with the expectation of losses.

5. The stock market goes up *and* down.

6. If you want to hedge against stock market risk the easiest thing to do is hold more cash.

7. Risk can change shape or form but it never really goes away.

8. There's no such thing as a perfect portfolio, asset allocation or investment strategy.

9. No investor is right all the time.

10. No investment strategy can outperform at all times.

11. Almost any investor can outperform for a short period of time.

12. Size is the enemy of outperformance.

13. Brilliance doesn't always translate into better investment results.

14. "I don't know" is almost always the correct answer when someone asks you what's going to happen in the markets.

15. Watching your friends get rich makes it difficult to stick with a sound investment plan.

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16. If you invest in index funds you cannot outperform the market.

17. If you invest in active funds there's a high probability you will underperform index funds.

18. If you are a buy and hold investor you will take part in all of the gains but you also take part in all of the losses.

19. For buy and hold to truly work you have to do both when markets are falling.

20. Proper diversification means always having to say you're sorry about part of your portfolio.

21. Day trading is hard.

22. Outperforming the market is hard (but that doesn't mean it's impossible).

23. There is no signal known to man that can consistently get you out right before the market falls and get you back in right before it rises again.

24. Most backtests work better on a spreadsheet than in the real world because of competition, taxes, transaction costs and the fact that you can't backtest your emotions.

25. Compound interest is amazing but it takes a really long time to work.

26. Investing based on what every billionaire hedge fund manager says is a great way to drive yourself insane.

27. It's almost impossible to tell if you're being disciplined or irrational by holding on when your investment strategy is underperforming.

28. Reasonable investment advice doesn't really change all that much but most of the time people don't want to hear reasonable investment advice.

29. The best investment process is the one that fits your personality enough to allow you to see it through any market environment.

30. Successful investing is more about behavior and temperament than IQ or education.

31. Stock-picking is more fun but asset allocation will have more to do with your overall performance.

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32. Don't be surprised when we have bear markets or recessions. Everything is cyclical.

33. You are not Warren Buffett.

34. The market doesn't care how you feel about a stock or what price you paid for it.

35. The market doesn't owe you high returns just because you need them.

36. Predicting the future is hard.

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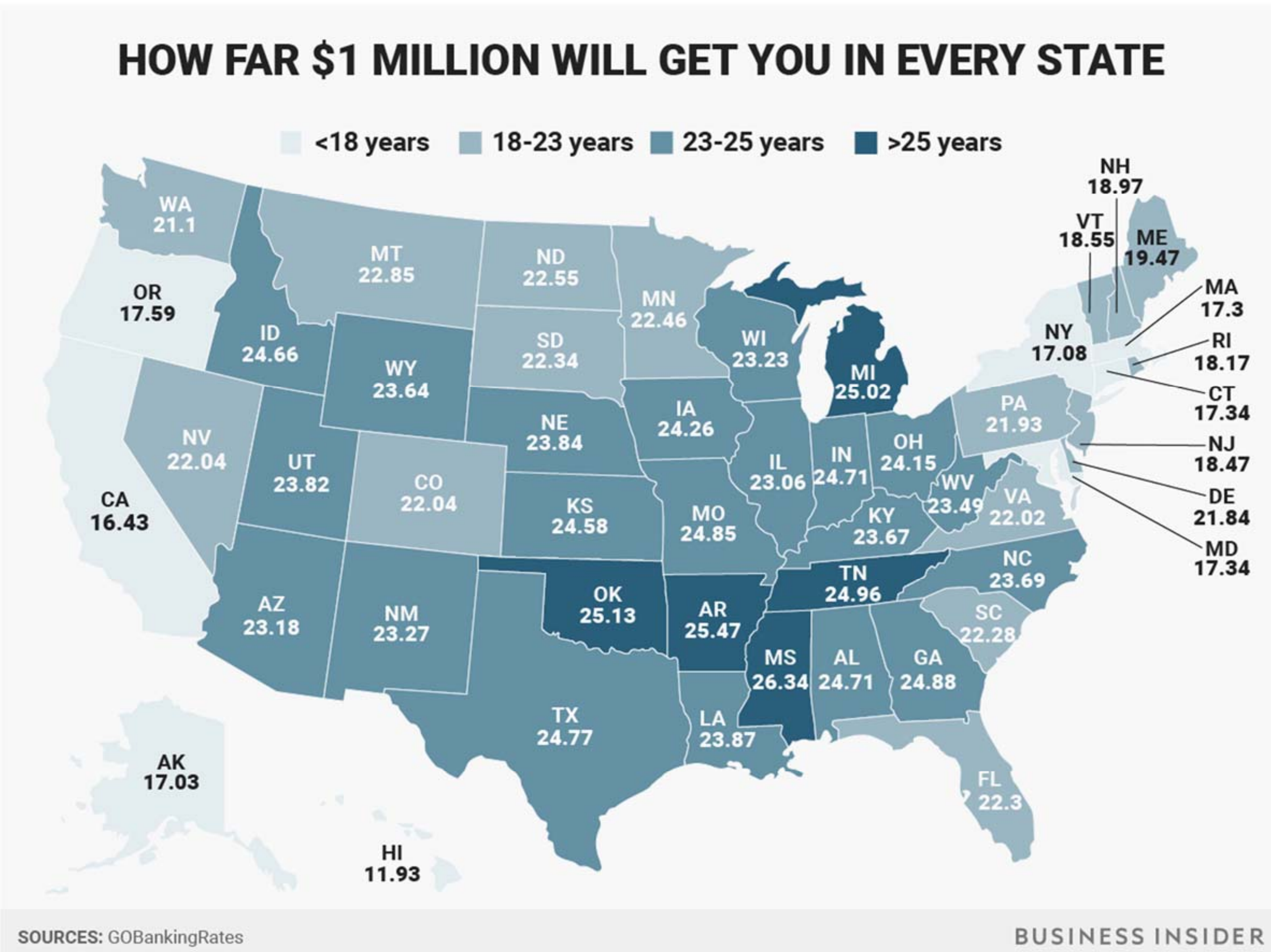
Where You Live Affects Your Wealth



Anaele Pelisson/Business Insider

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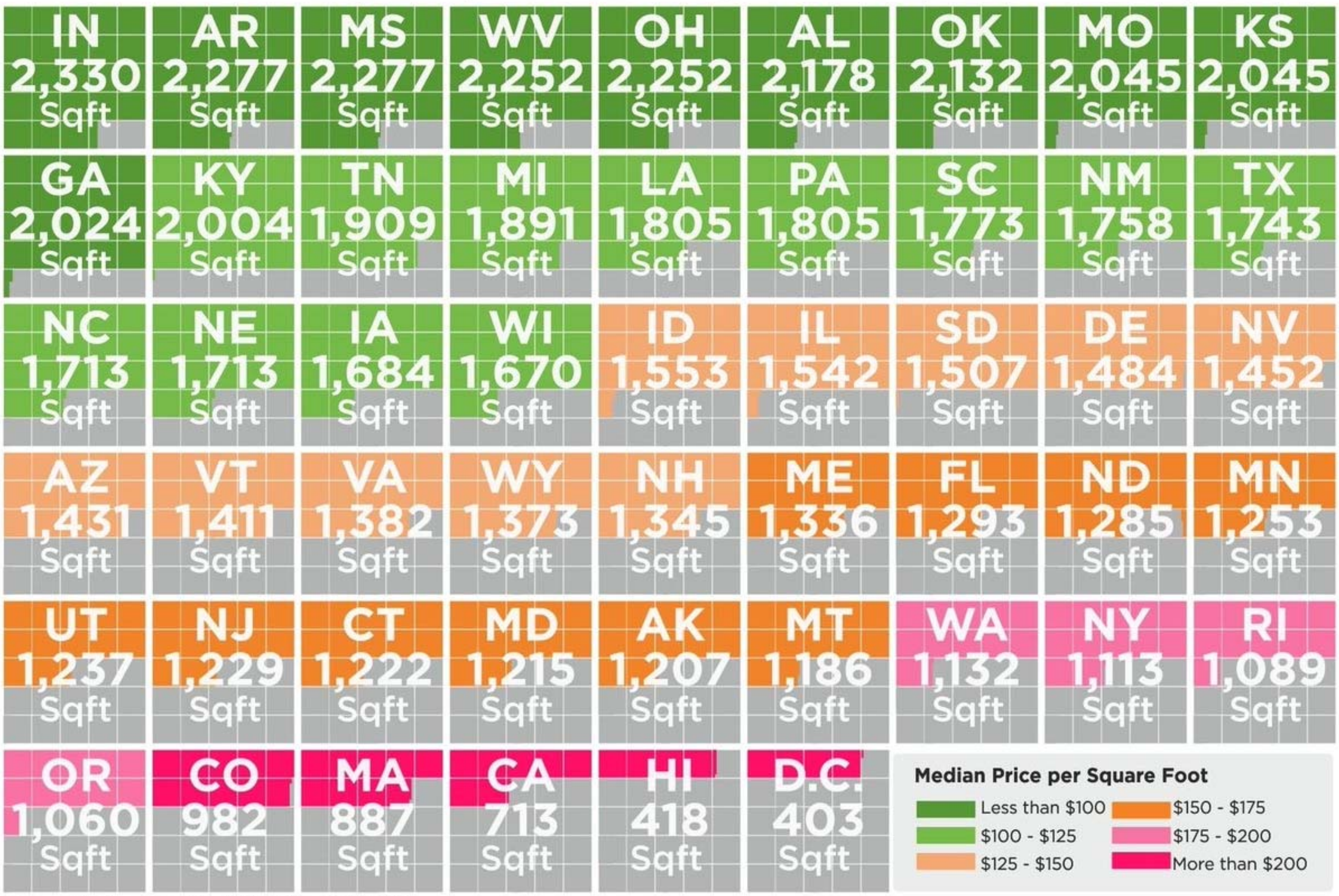
How Much Home (SQFT) You Can Buy for $200,400* in Every State?



* The median home value in the United States is $200,700

Article & Sources:
https://howmuch.net/articles/how-much-home-for-200400-dollars
https://www.zillow.com

howmuch net

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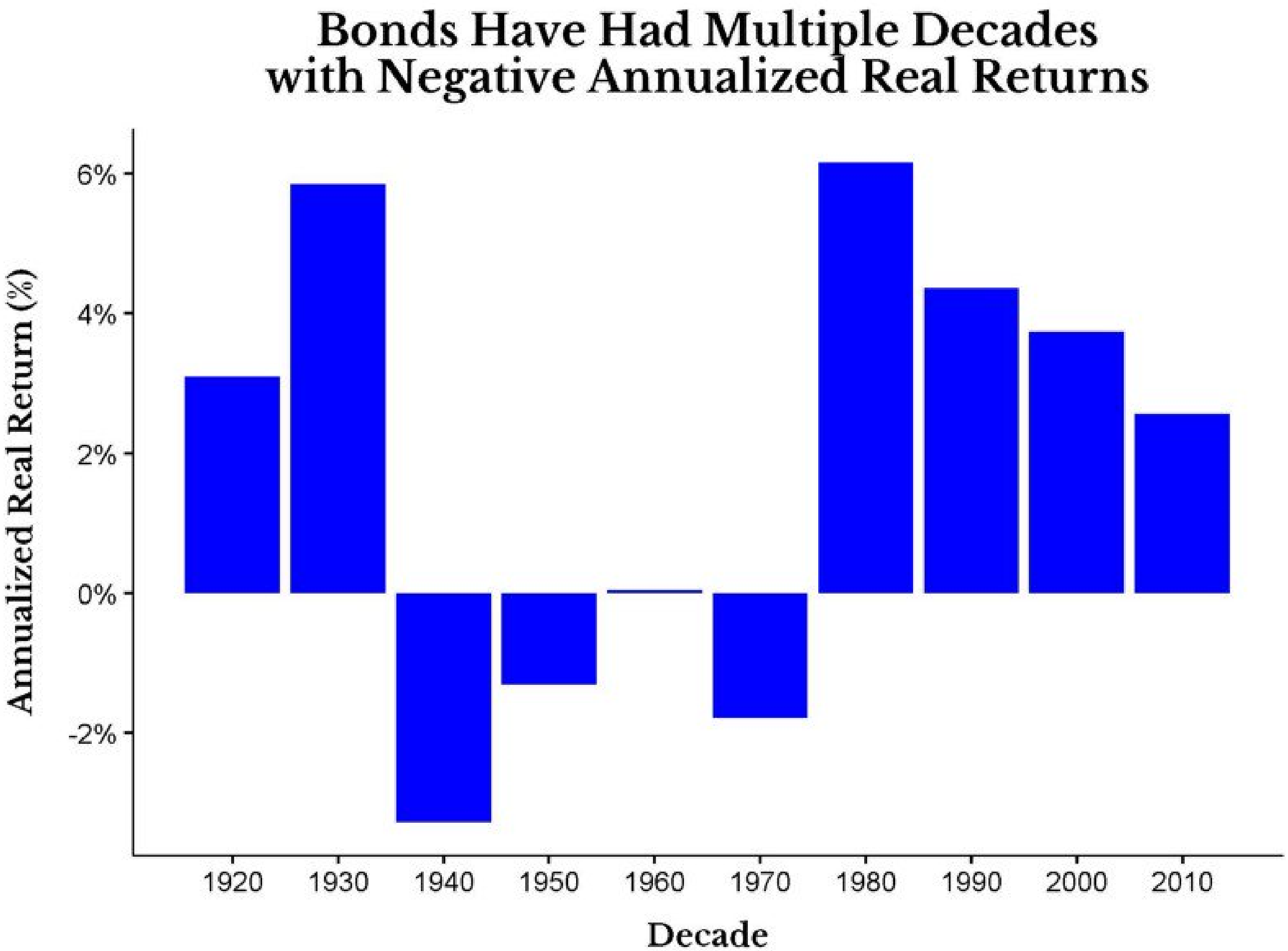
Bonds are Safe?



Source: http://www.stern.nyu.edu/~adamodar/pc/datasets/histretSP.xls (OfDollarsAndData.com)
Note: Adjusts for inflation using FRED CPI data.

Comment: Fixed income has been a difficult asset class since the Federal Reserve markedly dropped interest rates in 2007-8. When rates return to historic norms (remember 5% bank CDs) existing domestic bonds may/will drop significantly in price. It has been a long time since this happened (the seventies), but that doesn't mean it is not a threat. Wealth Care LLC

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portfolios have much of their fixed income actively managed and overseas in the attempt to minimize exposure to longer term domestic bonds.

America's spending on "National Defense" (stated as a percentage of total government outlays) has fallen from 43.2% in fiscal year 1966 to 15.1% in fiscal year 2017 (source: Treasury Department).

Random Notes

Everyone has a photographic memory; some just don't have film-Steven Wright

LOOKING INTO THE FUTURE – Just 1 of 10 Wall Street equity strategists polled by Barron's on 12/17/16 forecasted a year-end 2017 closing value for the S&P 500 above 2500. The S&P 500 index closed last Friday (10/20/17) at 2575 (source: Barron's).

FAMILY MONEY – Jeff Bezos is ranked # 1 as the richest person in the world ($94 billion as of Friday 10/27/17), but the 6 living heirs of Sam Walton (who died in 1992) are worth a combined $140 billion (source: Forbes).

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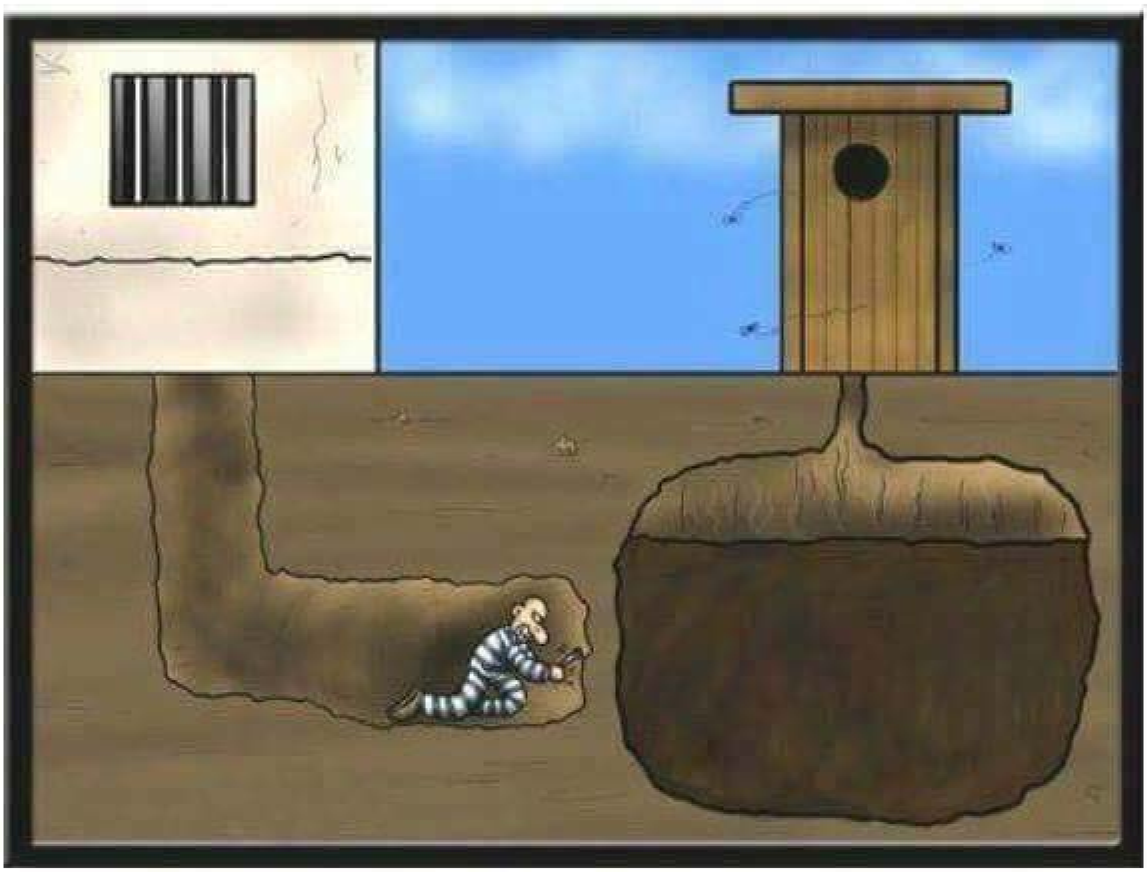
WEALTH CARE LLC

FOR ALL, WHO MAY BE HAVING A BAD DAY..



It Can Always Be Worse.

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