Wealth Care LLC August 2019 Commentary

Investment Thoughts

After some movement down in 2018, US markets have zoomed back up. Foreign markets have also risen, but remain inexpensive by valuation when compared to the US markets. Interest rates remain relatively low. Wealth Care LLC portfolios remain in low cost indexed US and foreign funds, with mostly actively managed global fixed income. We are always happy to discuss your investments as they are specific to each family.

Why We Stay Diversified

Here is a nice illustration on how poorly the average investor has done over the last twenty years *despite* much better returns widely available. The key (as always) is to be diversified and disciplined. It is to avoid buying "hot markets" and not selling when prices drop. That is one of the jobs we do for you.

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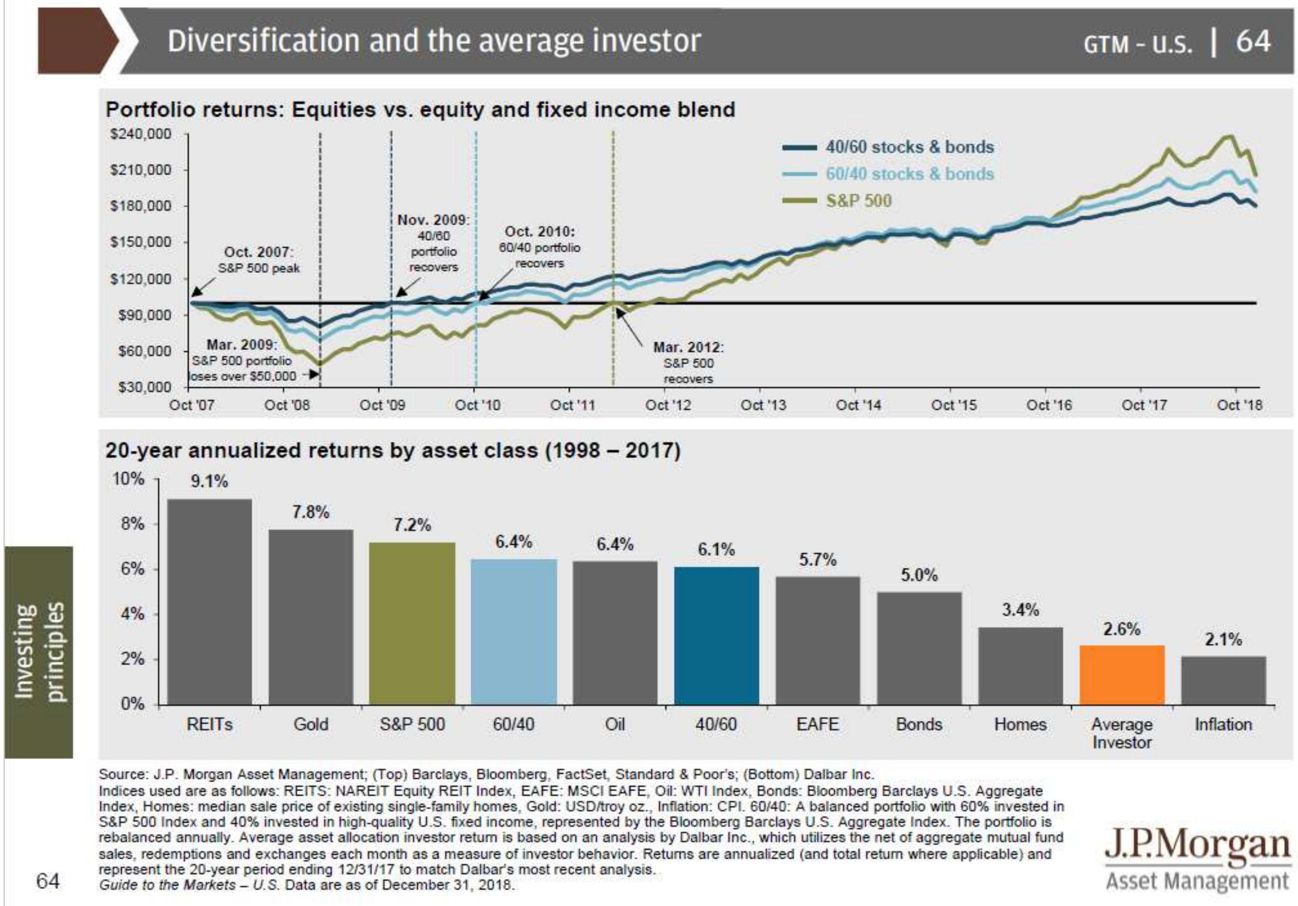

Predicting the Future is Hard

The Wall Street Journal recently shared a graphic showing predictions from 50 economists on the direction of interest rates. The average forecast for the end of June was 3.39% on the ten-year US bond.

As you can see in the chart below, *not one of fifty* predictions came close to where rates currently are. -from David Perell

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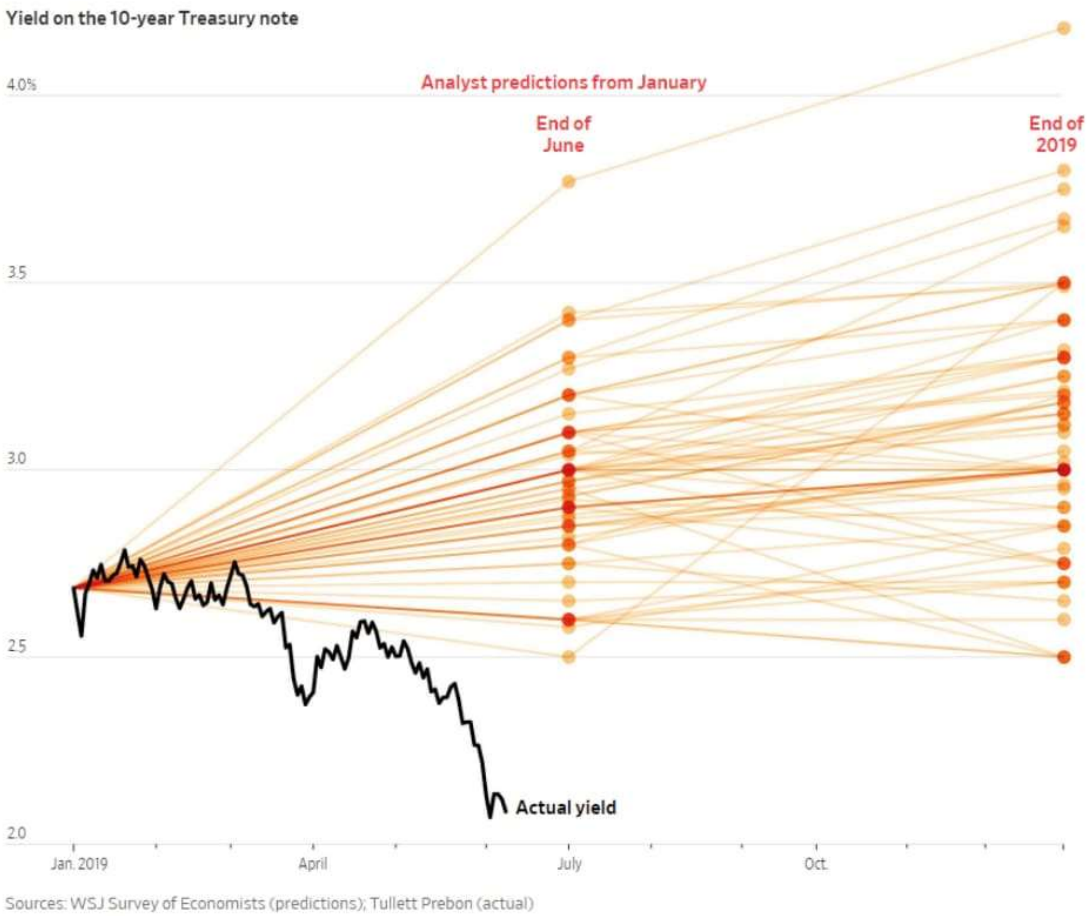

Geographic Arbitrage

Where you live can make a large difference in your lifestyle expenses as well as how much wealth you can accumulate. This chart is from Jim Dahle MD, and compares the average home price vs. income for a family practice physician in many US cities.

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City	Median Housing Price	Median Family Practice Income
San Francisco	$1.36M	$254K
Los Angeles	$705K	$228K
San Diego	$591K	$217K
Salt Lake City	$394K	$191K
Las Vegas	$275K	$210K
Phoenix	$243K	$200K
Houston	$185K	$207K
Indianapolis	$143K	$197K

The Benefits of Industrialization and Capitalism

It is noteworthy that income growth over the last two centuries went hand in hand with other salutary developments.

As late as 1870, life expectancy in Europe, the Americas, and the world was 36, 35, and 30 years. Today, it is 81, 79, and 72 years.

In 1820, 90 percent of humanity lived in extreme poverty. Today, less than 10 percent does.

In 1800, 88 percent of the world's population was illiterate. Today, 13 percent of the world's population is illiterate.

In 1800, 43 percent of children died before their fifth birthday. Today, less than 4 percent does.

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In 1816, 0.87 percent of the world's population lived in a democracy. In 2015, 56 percent did.

In 1800, food supply per person per day in France, which was one of the most advanced countries in the world, was a mere 1,846 calories. In 2013, food supply per person per day in Africa, the world's poorest continent, amounted to 2,624 calories.

Conflict, which was the default state of humanity for millennia, has declined. In the early 1800s, the combined military and civilian death rate from conflicts was about 65 per 100,000 people. By 2000 that rate had fallen to about two per 100,000. The last great-power conflict, which pitted China against the United States over the future of the Korean Peninsula, ended in 1953.

Slavery, which was rampant in most parts of the world in 1800, is now illegal in every country.

Finally, for the first time since the start of industrialization, global inequality is declining as developing countries catch up with the developed world. Between 1990 and 2017, argues Branko Milanovic from City University of New York, the global Gini coefficient, which measures income inequality among all of the world's inhabitants, decreased from 0.7 to 0.63.

Marion Tupy in National Review

How Much Interest Are You Getting on that CD?

2-Yr Bond Yields

USA: +1.76%
Italy: -0.05%
Japan: -0.22%
Ireland: -0.45%
Spain: -0.46%
Portugal: -0.49%
Sweden: -0.59%
Belgium: -0.60%
Austria: -0.66%
Finland: -0.67%
France: -0.68%

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Denmark: -0.69%
Netherlands: -0.72%
Germany: -0.75%
Swiss: -0.90%

It may be hard to believe, but most European government bonds now have *negative* interest rates. Yes, that means you pay *them* to hold your money in a presumably safe place. If you buy a 2 year CD in the US, you can expect to receive close to 2% in interest each year. If you buy a 2 year CD in Germany, you will *pay the bank almost 1% a year to hold your funds.*

Here is the yield curve on Swiss government bonds. You pay them almost 1% of your funds annually for a one to five year bond. The Swiss government does not pay you interest until you lend them money for *forty* years, at which point they pay you under one tenth of one percent per year.

What is going on? European central banks have driven interest rates negative with two goals in mind. First, they are trying to avoid deflation-a situation when money buys more in the future than the present (the opposite of inflation). In deflationary economies, people wait to spend

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money, thinking it will be worth more later on. This is contractionary to an economy, and most European economies are already sluggish. The second motivation is to devalue the Euro (making exports stronger)-a negative interest rate will make both domestic European and foreign fixed income investors want to buy bonds in the US, where they can make positive interest rates. To do this, they have to sell the Euro (dropping its value against the dollar) and buy US dollars (driving up the relative value of the dollar). However, buying US fixed income also drives up US bond prices, which in turn lowers US bond interest rates. This is part of why we are seeing very low long-term interest rates at home.

Can this happen in the US? Ten year US bonds are at 2% (down from over 3% just in a year) and the Federal Reserve is set to cut rates further. At Wealth Care LLC, we continue to try to find reasonable returns on fixed income globally.

Why We Invest

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We invest to keep up with inflation and taxes at the very least. It takes six of today's dollars to buy what one dollar bought in 1973. What will tomorrow's dollars buy?

Miscellaneous

The top 3% of taxpayers make about 29% of all adjusted gross income and pay just over 50% of all income taxes. Source: IRS

Safe Deposit Boxes Aren't Safe

https://www.nytimes.com/2019/07/19/business/safe-deposit-box-theft.html

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Random Notes

Your investment time horizon is measured in decades, so it is, of course, crucial that you trade today.-Jonathan Clements

When a group of graduate students visited legendary investor Michael Steinhardt one of the students asked him for his best piece of advice. Steinhardt replied, “I'm your competition.”

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WEALTH CARE LLC

"It's not enough that we succeed. Cats must also fail."

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