Wealth Care LLC August 2020 Commentary

Investment Thoughts

It has been a longstanding tenet of our investing style to use only “passive” low cost index funds for US and large foreign developed stock markets. This strategy is due to these markets being very “efficient,” i.e. they are so widely followed that an active manager cannot gain an edge and beat the index over any significant period of time.

We’ve been rethinking this decision in light of the pandemic and its economic effects globally. We wonder if many previously efficient markets are instead becoming much less efficient-possibly allowing some astute active managers to pick some winners and avoid some losers inside the index. As an example-the S&P 500 index contains stocks related to retail stores as well as the real estate they use. If the economy continues to be tough on retail clothing, etc., then owning these stocks just because they are in the index may be a poor strategy.

So, we have been looking for some active managers for asset classes outside of US large company growth stocks (where most of the gains have been over the last couple of years). You may see us add/substitute some new funds in your portfolios to align with our thinking.

You Cannot Predict or Time the Market

We note that the first quarter of 2020 was among the worst in terms of price drops in decades. Then the second quarter had the best price gains in at least twenty years. Lesson-market timing is impossible, and no one can predict what the market will do in the short to intermediate term. Those that sold in March found that out. I find it amusing that in a article (below) that illustrates how hard it is to make market predictions actually then contains a prediction (see “choppiness” quote below).

From the Wall Street Journal:

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U.S. stocks wrapped up their best quarter in more than 20 years, a remarkable rally after the coronavirus pandemic brought business around the world to a virtual standstill.

Just three months ago, investors were lamenting the [end of the bull market]—and the longest economic expansion on record—after major U.S. stock indexes lost about 35% of their value in less than six weeks. The subsequent rebound has been nearly as brisk.

Partly thanks to an unprecedented $1.6 trillion stimulus package from the Federal Reserve and Congress and a [surge in trading] among individual investors, the rally has lifted everything from beaten-down energy stocks to apparel retailers to big technology firms.

"Massive stimulus by the Fed and on the fiscal side has propelled the stock market's recovery at a speed unlike we've ever seen," said Liz Ann Sonders, a chief investment strategist at Charles Schwab & Co.

"But there's a perceived disconnect between what the market has done and the economic recovery. The reality is, the second half of the year may see a lot of choppiness."

The S&P 500 finished the second quarter up 515.70 points, or 20%, to 3100.29, its biggest percentage gain since the last three months of 1998. The Dow Jones Industrial Average added 3895.72 points, or 18%, to 25812.88, its best quarter since 1987. The rally has cut the indexes' losses for the year to 4% and 9.6%, respectively.

The Nasdaq Composite, which is heavily weighted toward big tech stocks including Apple Inc. and Microsoft Corp., has fared even better, up 31% in the past three months and 12% for this year.

2nd Quarter 2020 statistics

- DJIA: +17.8%, best quarter since 1987
- S&P 500: +20%, best quarter since 1998
- Nasdaq: +30.6%, best quarter since 1999
- Oil: +80%, best quarter in 40 years

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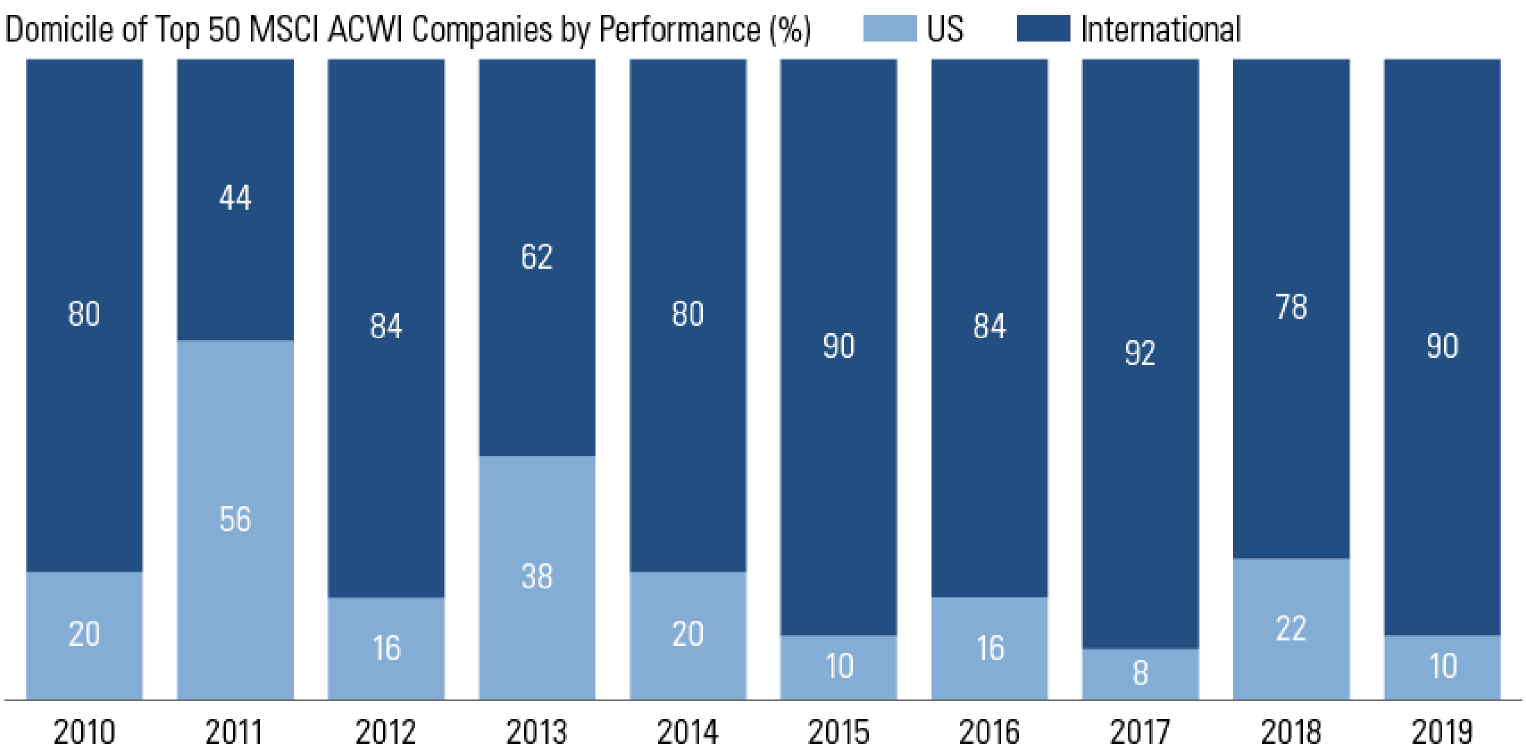
Bet you didn't know!

We keep a close focus on domestic US stocks, but this chart demonstrates that in 9/10 years, most of the companies that had the highest price rises were International!



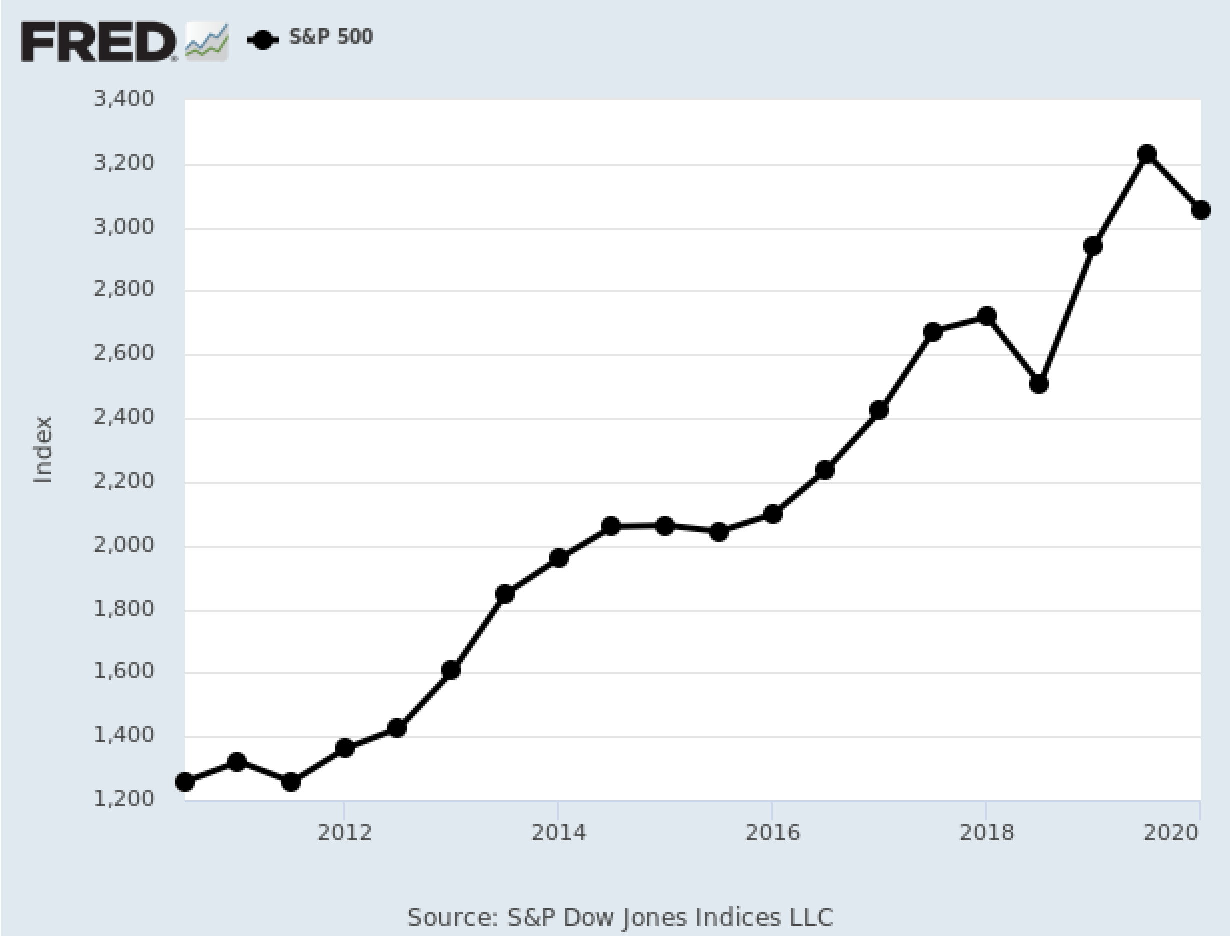
Required Minimum Distributions and Cash Strategy

Many of you have asked us in the past where to "park" cash that will be needed within a year or two. Our answer is always the same-keep it in cash (or a bank CD which is the same to us). When you know that you will *need* a certain amount of cash in the short term, it is dangerous to invest it in stocks with their known volatility.

Those of you that have required minimum distributions from IRAs essentially have a certain need for cash over the next year (and more). Our strategy is to make the cash needed for a year rolling forward about every six months. Note that most of you are not taking distributions in 2020 under the new law, but this will resume in 2021.

Don't Watch Your Portfolio Too Often

As discussed here before, the US stock market is up about 55% of days and down 45% of days. Watching daily results in more pain than joy as we feel losses more than gains (by a factor of more than 2X). So, here's an interesting way to look at the price performance of the S&P 500 index for the last ten years, checking only every six months.



What About the Election?

We've had a few questions about our investing strategy for the upcoming Presidential election. Our strategy is to do what we are currently doing-as we have discussed here many times-trying to invest on geopolitical events leads to large mistakes. As a recent example-look at this link:

https://www.google.com/search?client=firefox-b-1-d&q=market+predictions+if+trump+wins+2016

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Market pundits were almost uniformly negative about what would happen with the stock market if Trump won the election. They were very wrong and an investment change based on "getting out of the market" would have caused much pain. Conversely, the best stock market in the last forty years was under Bill Clinton, a democrat. The point is that we cannot time the market and should not do so.

Stocks Beat Bonds

Just look at this chart! And this was during the largest Bond bull market imaginable-as long term interest rates dropped from mid-teens in 1982 to under 2% now.

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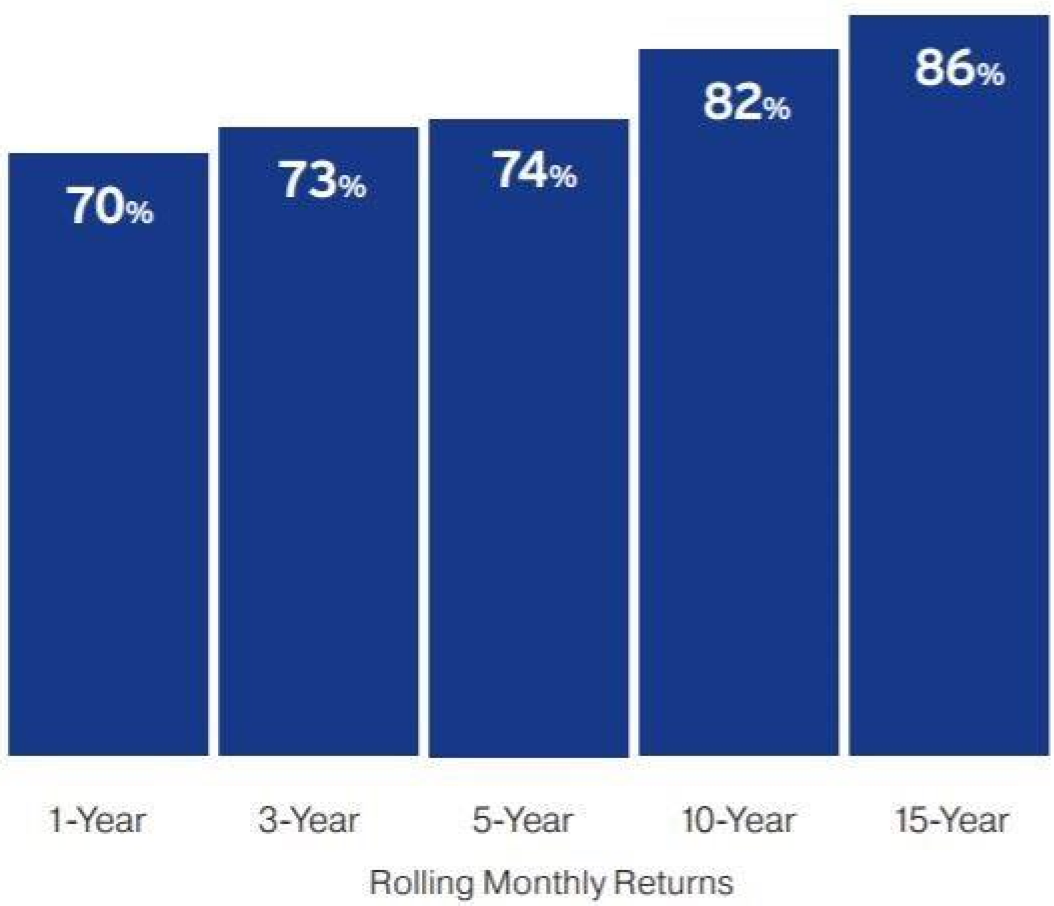
Percentage of Time US Stocks Outperformed Government Bonds Over Rolling Periods (1978-2018)



Miscellaneous

When I started in medical practice in the mid 1980s, being 70 was "old." Look at this amazing chart and then appreciate that it is very general. Educated people that take care of their health have an even significantly higher life expectancy.

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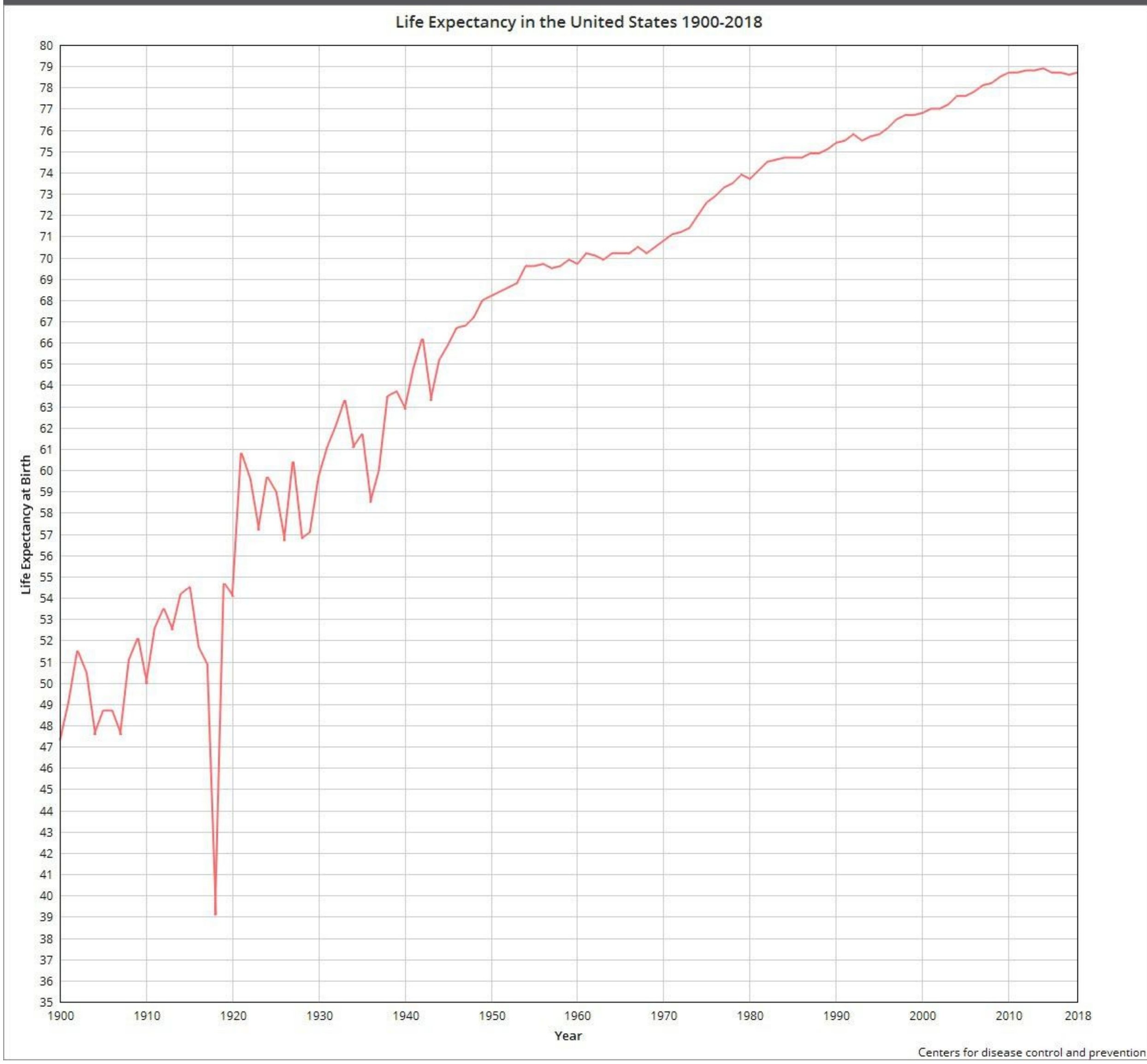

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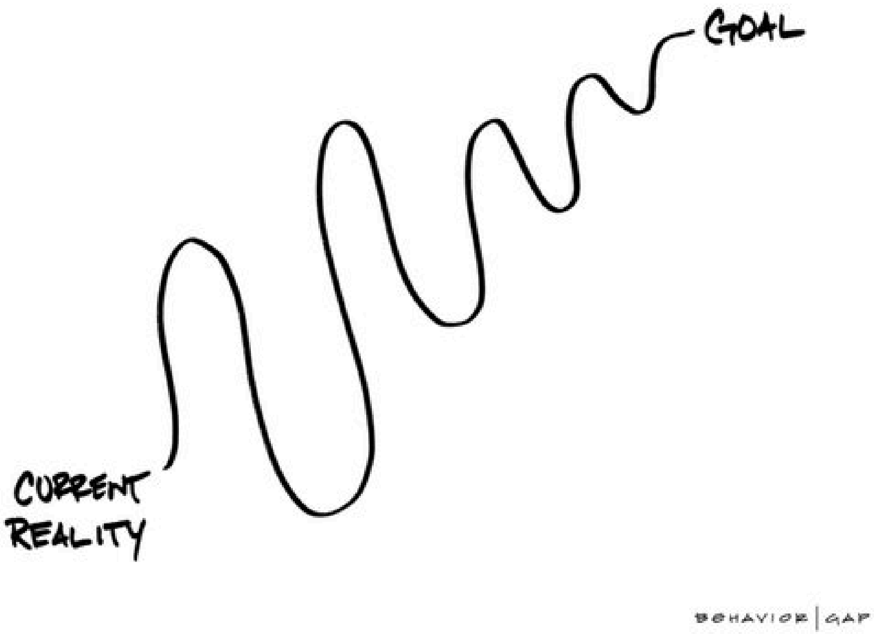

Random Notes

Being enthusiastic is worth 25 IQ points.

• Don't be afraid to ask a question that may sound stupid because 99% of the time everyone else is thinking of the same question and is too embarrassed to ask it.

• The purpose of a habit is to remove that action from self-negotiation. You no longer expend energy deciding whether to do it. You just do it. Good habits can range from telling the truth, to flossing.

Luck is more important than hard work, but hard work increases luck.-anon

The Team at Wealth Care LLC

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