Wealth Care LLC September 2020 Commentary

Investment Thoughts

In mid-August, the US stock market had fully recovered from the swoon down in March (using the S&P 500 index). Who would have believed that would happen just a few months ago? It is yet again an illustration of anyone being completely unable to predict short to intermediate term market moves. Remember this when trying to predict what the market will do with an election looming.

We also know that we will experience regular drops in stock prices on the order of at least 20% roughly every five years (we had this in 2000, 2008, 2011, 2018, and 2020 to name the last five times in 20 years). And every single time is an opportunity to buy stocks at a discount-not to sell. Unless “this time is different” (and it never is), the same will be true in the future.

Thoughts on Real Estate

We are commonly asked about investing in real estate-rental houses, vacation houses, commercial space, land and more. We think that there are rare times that this is a good investment. One’s home is a quality of life issue, not an investment in most cases. Even very desirable home property appreciates at best around the rate of inflation nationally. One’s office is often a good investment, substituting equity for rent-as long as the office you own is not too much more magnificent than one you would rent.

But other real estate is rarely a good investment. You should recognize that real estate is illiquid-it can be hard to sell and also take a long time to dispose of. If the property has or develops environmental or structural problems, this compounds the illiquidity. External events

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can act against the property-think of prices in 2007-11 in most locales. Think about owning rental real estate in one of our major US cities at this time.

Real estate buildings carry multiple ongoing costs, regardless of the price you can sell them for. There is insurance, property tax, scheduled repairs, expected large capitalized expenses (roof, A/C) and unexpected damage and repairs (termites, hurricane damage, etc.).

When long term investing in global stocks can reasonably be expected to return 6-8% a year over the long term, the real estate investment with all it's risk and illiquidity should be expected to return at minimum-a double digit return. We see many proposed investments that do not even come close.

Did You Know?

You might have seen that the DOW Industrials 30 index is changing three of it's components this month. But other indexes like the S&P 500 add and remove companies from their list of 500 on a regular basis-over one third of companies are new per decade.

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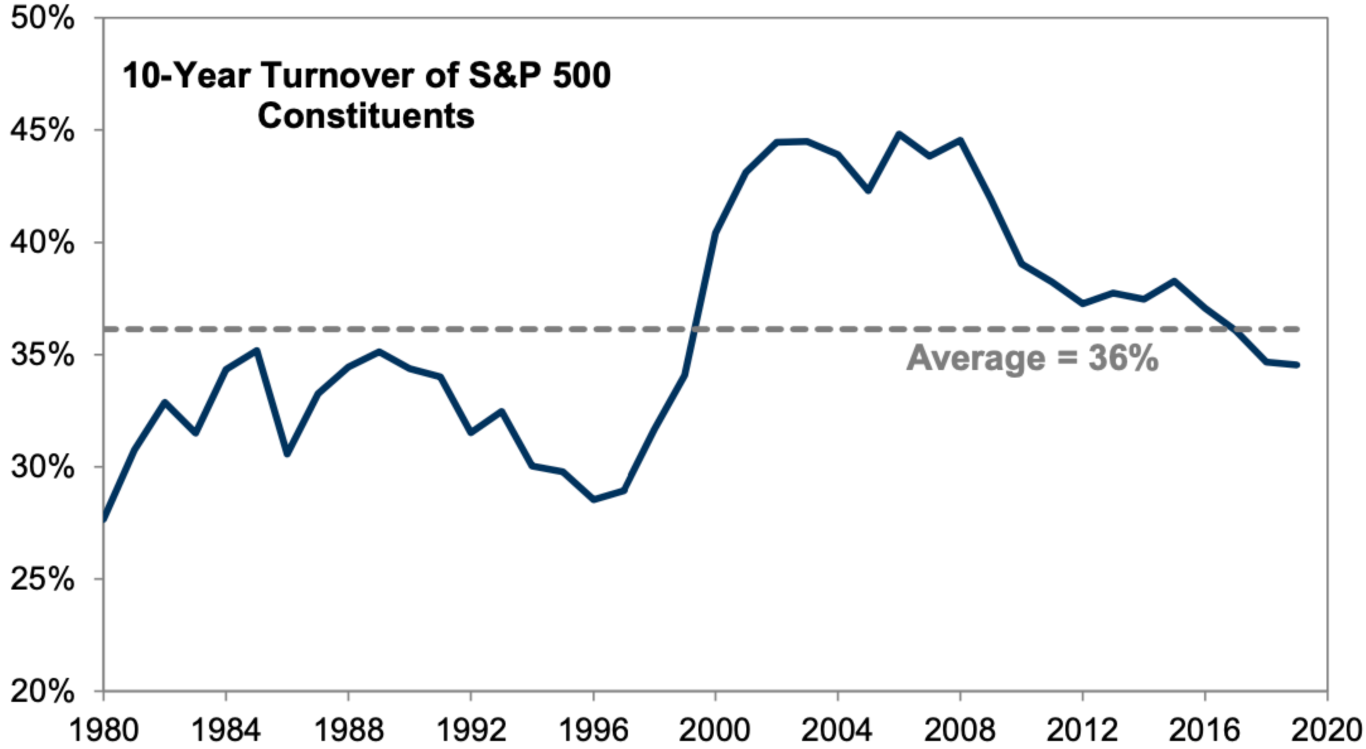
(5) <u>Index characteristics</u>: The S&P 500 index changes over time. Since 1980, more than 35% of S&P 500 constituents have turned over during the average 10-year period. Survivor bias means the index is continually reconstituted as less successful companies are replaced by new firms with better growth prospects.

Exhibit 65: 36% of S&P 500 constituents turnover during the typical 10-year period
as of 2019



Source: Compustat, Goldman Sachs Global Investment Research

Health Savings Accounts (HSAs)

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Are the only way to totally avoid paying tax on income (ever!). Please let us know if you participate in one.

Household Debt Keeps Falling (a good thing)

Are You a Long Term Bull or Bear?

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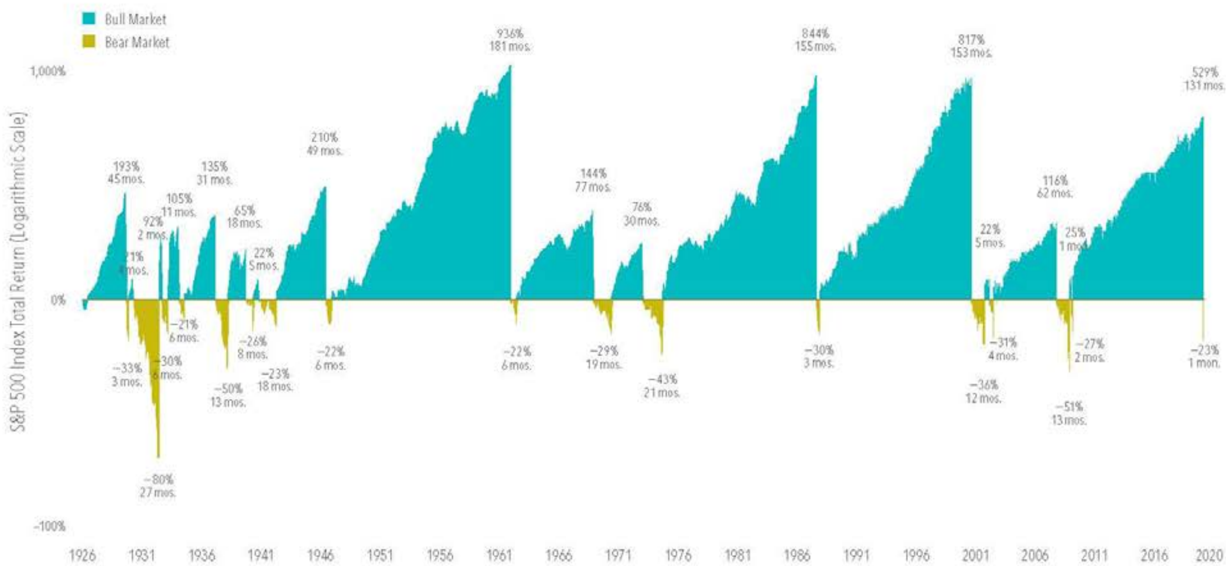
WEALTH CARE LLC

Dimensional

Bulls, Bears, and Long-Term Benefits of Stock Investing

S&P 500 INDEX TOTAL RETURNS
January 1926–March 2020



Stock returns are volatile, but nearly a century of bull and bear markets shows that the good times have outshined the bad times.

- From 1926 through March 31, 2020, the S&P 500 Index experienced 17 bear markets, or a fall of at least 20% from a previous peak. The declines ranged from –21% to –80% across an average length of around 10 months.
- On the upside, there were 17 bull markets, or gains of at least 20% from a previous trough. They averaged 56 months in length, and advances ranged from 21% to 936%.
- When the bull and bear markets are viewed together, it's clear equities have rewarded disciplined investors.

The stock market's ups and downs are unpredictable, but history supports an expectation of positive returns over the long term. For the best shot at the benefits the market can offer, stay the course.

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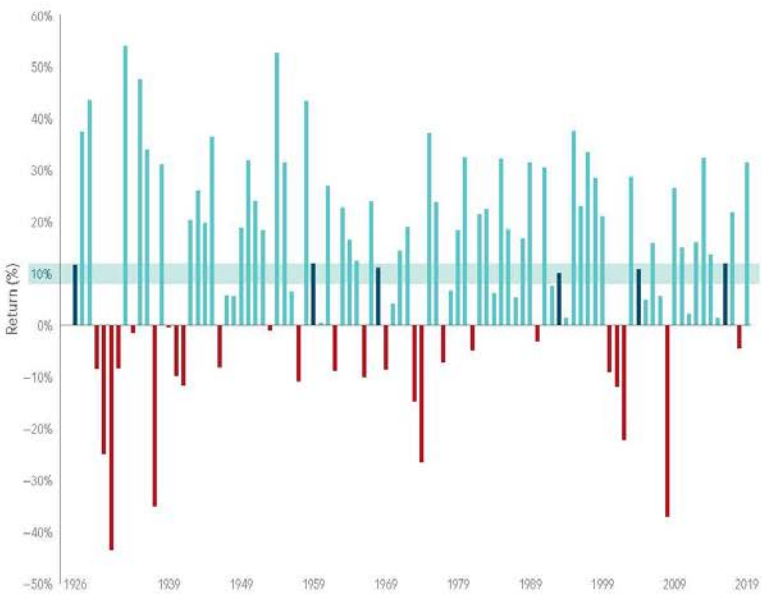
Even Long Term Bulls Have to Live with Volatility

Dimensional

The Bumpy Road to the Market's Long-Term Average

S&P 500 INDEX
ANNUAL RETURNS 1926-2019



Since 1926, the US stock market has rewarded investors with an average annual return of about 10%. But it's important to remember that returns in any given year may be sky-high, extremely poor, or somewhere in between.

- Annual returns came within two percentage points of the market's long-term average of 10% in just six of the past 94 years.
- Yearly returns have ranged as high as up 54% and as low as down 43%.
- Since 1926, annual returns have been positive 69 times and negative 25 times.

Understanding the range of potential outcomes can help you stick with a plan and ride out the inevitable ups and downs.

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Miscellaneous

Progress

A vaccine against cancer!
https://www.sciencedaily.com/releases/2020/07/200709085320.htm

Random Notes

Everyone you admire was once a beginner.-Jack Butcher

"“Of course I talk to myself. I like a good speaker, and I appreciate an intelligent audience.” ~Dorothy Parker

The more I learn, the more I realize how much I don't know. Albert Einstein
After a job interview, if asked "Do you have any questions?" always ask "Yes, is there anything about my application that concerns you?"

“Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves.” — Peter Lynch

The Wealth Care LLC Team September 1, 2020

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