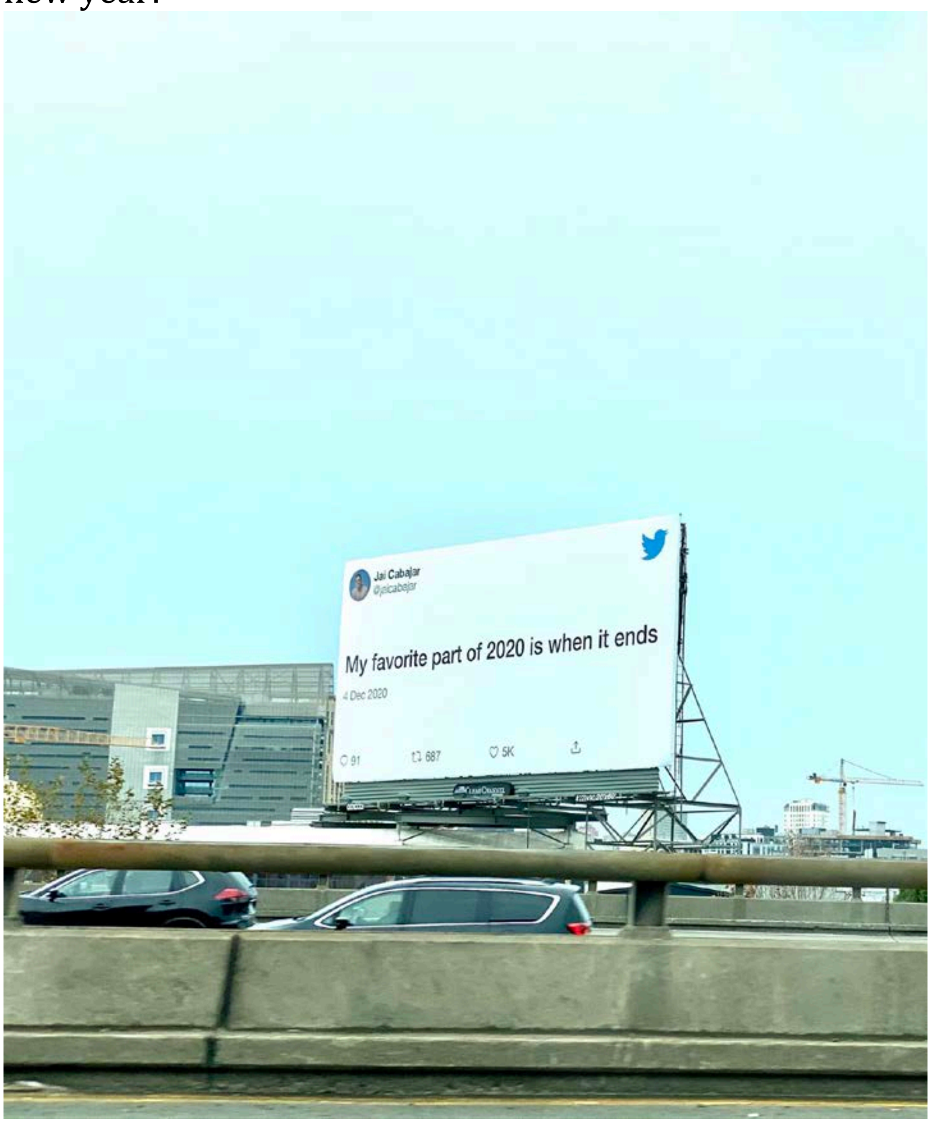
WEALTH CARE LLC

Wealth Care LLC January 2021 Commentary

Happy New Year!

2020 was in many ways a year to forget. We had a pandemic and a contentious election that made it hard to enjoy the many wonderful things in our lives. We hope you have a wonderful new year!



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Wealth Care LLC had it's busiest growth year ever, and we are so very appreciative of your trust and confidence in working with us!

Investment Thoughts

First, I would like to point out the lesson we keep learning over and over-that we should ignore most geopolitical events when to comes to maintaining a steady disciplined investment approach. Since the election-the S&P 500 index has (as of 12.28) over 15%, despite fears of either Presidential contender winning, and during spikes in Covid infection rates.

And to remind us all of the superiority of stock market returns-the general US stock market has returned an annualized 9% since just before the great recession of 2008-9 through this month. Now that we are hitting new highs on a frequent basis-? Too high? See below:

We enter the new year with some definite investment themes:

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2021 may be a year of economic boom. We have a pent-up population with vaccines coming. A spectacular housing market, generally low personal debt, a large amount of money in households, better employment numbers and still low inflation (see below for more on this).

Home Sales, Home Price Appreciation, and Mortgage Rates

- The most impressive area of the US economy in 2020 has been residential real estate with sales activity registering multi-year highs (grey line)
- This strength in housing is attributable to the combination of record-low mortgage rates and consumer preference shifting to single-family homes
- This increased demand along with available and attractive financing has pushed home prices up over 6% YoY after two years of lower price gains

EVERGREEN GAVEKAL

The stocks that have increased the most in price look uncomfortably expensive. I mean the large growth/tech companies driving the S&P 500. You know them-Facebook, Google, Tesla, Apple, etc. They have high valuations and high popularity-usually not a good combination. Several of them will be facing government antitrust action (Facebook was sued by 48 states in mid December). Conversely, small US companies (especially value), and Emerging Markets have been lagging in price for years but appear to be perking up.

Chart of Emerging Markets earnings growth estimates for 2020-2021

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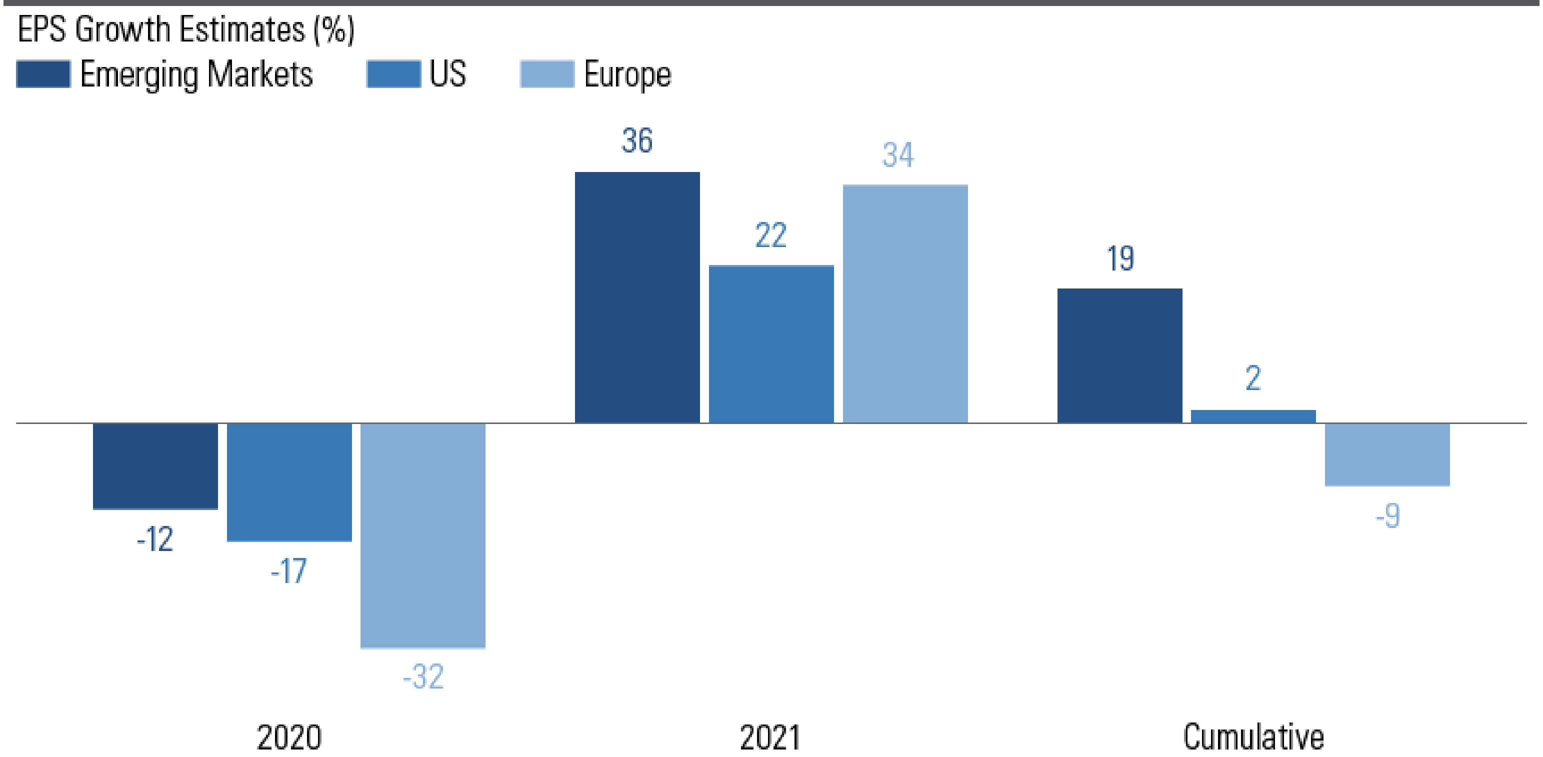

We are concerned about inflation. Many of the features in the paragraph on economic boom also can lead to higher prices. Inflation means higher interest rates. As interest rates rise, bond prices drop-making fixed income more problematic as an asset class. If inflation rises too quickly, it also takes a toll on stocks-as companies find it more expensive to borrow money and investors see “new” fixed income paying more competitive returns. We will be watching closely.

The Sequence of Returns and What it Means to You

When we talk with you about “safe withdrawal rates” on a retirement portfolio, we emphasize that picking a distribution rate is done as a process. We start a rate (usually between 3-5%) and then watch what happens, making further adjustments annually. This is because it matters much *when* price changes occur in a portfolio. Look at this example below:

Sequence risk is the risk that investment returns happen in an unlucky order.

Take three investors that start with $2 million, earn identical 7% annual returns, and withdraw $125k per year. The only difference is that they incur a 25% loss at different times:

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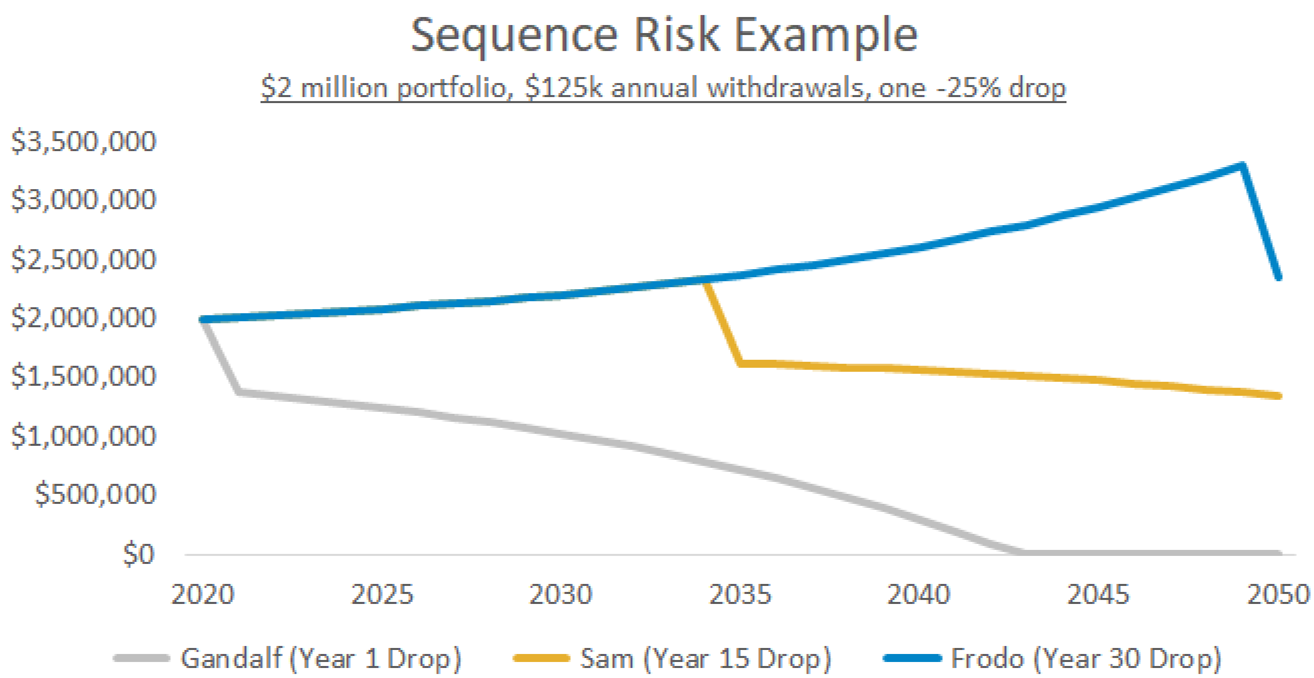
- **Frodo** doesn't encounter the loss until year 30.
- **Sam** experiences his loss 15 years down the road.
- **Gandalf** immediately loses 25%.



(from Movement Capital blog)

Withdrawal rate planning is therefore dependent on which path market returns take upon your retirement. We start with a rate that will keep you solvent to the "end," but make adjustments along the way. For example, many families that retired after 2009 are on an upward path, allowing higher withdrawal rates and more spending.

Miscellaneous

Gmail Hacks
https://www.fastcompany.com/90576550/useful-gmail-settings-tips-ios-android

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Fabulous quality Beatles movie coming in 2021-
Trailer video here https://www.rollingstone.com/music/music-news/peter-jackson-beatles-sneak-peek-1106383/

Random Thoughts

If something is impossible to know you are better off not being very smart, because smart people fool themselves into thinking they know while average people are more likely to say, "I don't know" and end up closer to reality. -Morgan Housel

"I'd rather be optimistic and wrong, than pessimistic and right." -Elon Musk

"Google was the twelfth search engine. Facebook was the tenth social network. iPad was the twentieth tablet. It's not who gets there first. It's who gets there first when the market's ready." – @jason

The stock market is a device for transferring money from the impatient to the patient." – Warren Buffett

January 1, 2021 from the Wealth Care LLC Team

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