WEALTH CARE LLC

Wealth Care LLC Monthly Commentary-June 2018

Investment Thoughts

Money Market Change

Fidelity uses different money market funds for their "core" cash position (in your accounts). With the recent rise in interest rates, Fidelity's Government Money Market fund (FDRXX) jumped up to pay 1.4%, whereas the old core in after tax account (FCASH) remained below ½ percent. We switched everyone's after tax account to capture the higher interest rate in late May.

Fund Changes

In May, we finished a two month portfolio review and made some changes in many of your accounts. We compared the funds we were using to some new choices and considered expenses as well as one, three, and five year performances. We also avoided any trades that triggered significant capital gains. Although we don't trade often, we are always looking to have the best overall investments for both you and ourselves.

The Most Important Aspect of Investing

The erosion of purchasing power by inflation over time is an overlooked, but crippling event. The chart below from Dimensional funds beautifully illustrates the difference between holding cash (one month Treasuries) vs. Stocks over a long time period. Inflation absolutely guts the return of cash, and Stocks provide a nice bounty over inflation.

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The Impact of Inflation

IN MANY CASES, THE REASON FOR SAVING TODAY IS TO SUPPORT FUTURE SPENDING. Keeping pace with inflation is crucial for maintaining purchasing power, and stocks historically have generated a positive return after accounting for the impact of inflation. But, as with most aspects of investing, there is no guarantee. During the "lost decade" of 2000–2009, the return of the S&P 500 Index moved from –0.9% before inflation to –3.4% after inflation. (See matrix. ▶)

Despite stocks having a few periods of negative inflation-adjusted (real) returns, $1 invested in the S&P 500 Index has grown substantially to outpace inflation over the full period since 1926.

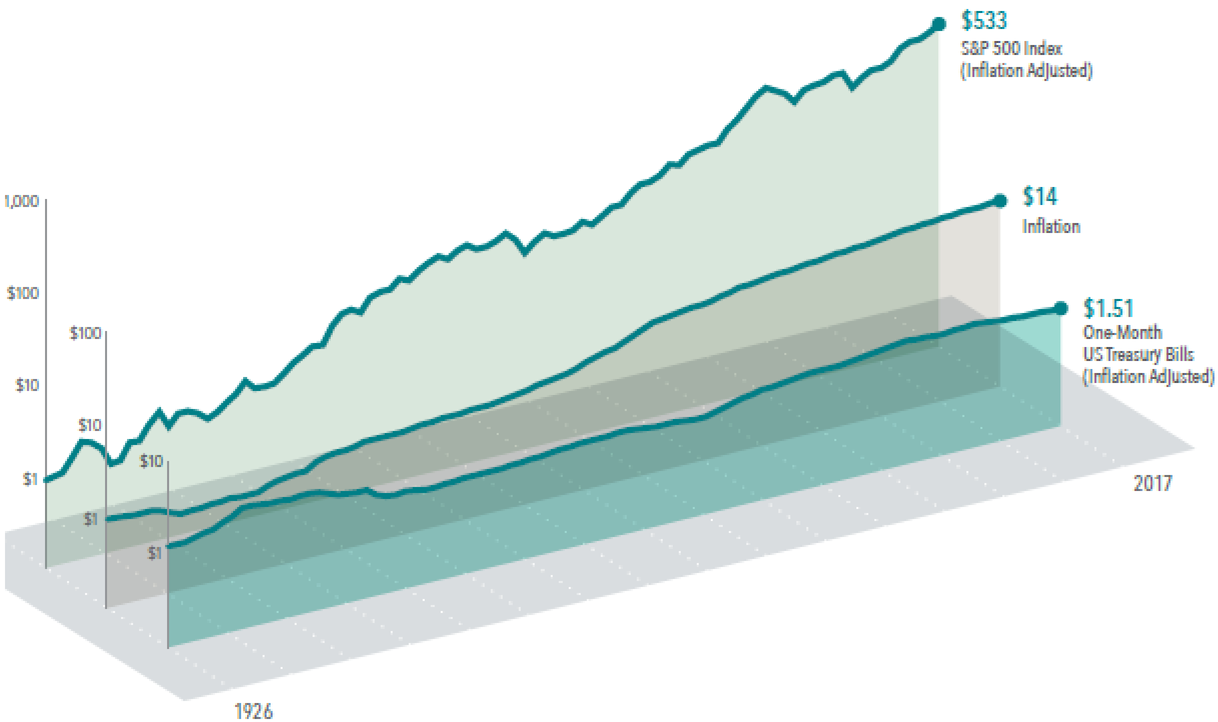
The story for One-Month US Treasury Bills is quite different. The matrix of inflation-adjusted returns shows large areas of negative real returns in red. (See matrix. ▶) In many periods, Treasury bills were unable to keep pace with inflation and would have eroded an investor's purchasing power. The lesson is that while the future returns of stocks are uncertain, an investment in a lower-volatility asset, such as One-Month US Treasury Bills, can present a different type of risk.

Investors may need to have some allocation to assets that outpace inflation if they wish to maintain their standard of living over time. Stocks are one option to pursue this objective, and for those looking to more precisely hedge inflation, Treasury Inflation-Protected Securities (TIPS) are another option.

S&P 500 Index, Inflation, and One-Month US Treasury Bills

Inflation-Adjusted Growth of $1, 1926–2017

$1 invested in the S&P 500 Index has grown substantially to outpace inflation since 1926. The story for One-Month US Treasury Bills is quite different.



Bonds are not always safe

We think of fixed income as the "safe" part of our portfolio. It's true that fixed income has less volatility (up and down) compared to stocks, but there are long periods of time during which fixed income can lose money after inflation year after year. Usually this is during a period of increasing interest rates (like now). Wealth Care LLC portfolios include both a high degree of active management as well as global diversification for fixed income investments in order to mitigate against the effects of increasing domestic interest rates.

10-Year Treasury Bonds (1930 - 2017)

Period	Inflation Rate (Ann.)	Starting 10-Year Yield	Ending 10-Year Yield	Nominal Return (Ann.)	Real Return (Ann.)
1930-1939	-2.0%	3.3%	2.2%	4.0%	5.8%
1940-1949	5.3%	2.2%	2.3%	2.5%	-3.2%
1950-1959	2.2%	2.3%	4.7%	0.8%	-1.5%
1960-1969	2.5%	4.7%	7.7%	2.4%	-0.2%
1970-1979	7.4%	7.7%	10.4%	5.4%	-2.2%
1980-1989	5.1%	10.4%	7.8%	12.0%	6.6%
1990-1999	2.9%	7.8%	6.3%	7.4%	4.4%
2000-2009	2.6%	6.3%	3.6%	6.3%	3.7%
2010-2017	1.7%	3.6%	2.4%	4.0%	2.3%

Pension Partners — @CharlieBilello

The Periodic Table of Investment Returns

I update this table in a monthly commentary every year. It is a beautiful example of how various asset classes rotate in performance on a somewhat random basis. It is a strong argument for being diversified, and also recognizing that being diversified means always having some asset classes that are not doing well (temporarily). Emerging Markets just had their first top year in eight, but look how well they did from 2003-9. Are they back in cycle?

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Table 4: The Asset Class Quilt of Total Returns

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Commodities 31.8%	US Treasuries 6.7%	Commodities 25.9%	MSCI EM 56.3%	REITS 32.0%	MSCI EM 34.5%	REITS 37.5%	MSCI EM 39.8%	US Treasuries 14.0%	MSCI EM 79.0%	Gold 29.2%	US Treasuries 9.8%	REITS 23.8%	S&P 500 32.4%	S&P 500 13.7%	S&P 500 1.4%	Global HY 14.8%	MSCI EM 34.7%
US Treasuries 13.4%	Global IG 4.6%	Gold 25.6%	MSCI EAFE 39.2%	MSCI EM 26.0%	Commodities 21.4%	MSCI EM 32.6%	Gold 31.9%	Gold 4.3%	Global HY 62.0%	MSCI EM 19.2%	Gold 8.9%	Global HY 19.3%	MSCI EAFE 23.3%	REITS 11.7%	US Treasuries 0.8%	S&P 500 12.0%	MSCI EAFE 24.7%
REITS 8.5%	Cash 4.4%	Global IG 14.9%	REITS 33.5%	MSCI EAFE 20.7%	Gold 17.8%	MSCI EAFE 26.9%	Commodities 16.2%	Cash 2.1%	MSCI EAFE 32.5%	Commodities 16.8%	Global IG 4.5%	MSCI EM 18.6%	Global HY 8.0%	US Treasuries 6.0%	Cash 0.1%	Commodities 11.8%	S&P 500 21.8%
Cash 6.2%	Global HY 3.1%	US Treasuries 11.6%	Global HY 30.7%	Global HY 12.4%	MSCI EAFE 14.0%	Gold 23.2%	MSCI EAFE 11.6%	Global IG -8.3%	REITS 31.7%	REITS 15.9%	Global HY 2.6%	MSCI EAFE 17.9%	REITS 0.7%	Global IG 3.2%	MSCI EAFE -0.8%	MSCI EM 11.2%	REITS 12%
Global IG 3.1%	Gold -0.7%	Cash 1.8%	S&P 500 28.7%	S&P 500 10.9%	REITS 10.7%	S&P 500 15.8%	US Treasuries 9.1%	Global HY -27.9%	S&P 500 26.5%	S&P 500 15.1%	S&P 500 2.1%	S&P 500 16.0%	Global IG 0.1%	Gold 0.1%	REITS -3.4%	Gold 8.6%	Global HY 10.1%
Gold -5.4%	MSCI EM -2.4%	Global HY -1.1%	Commodities 23.9%	Global IG 9.4%	S&P 500 4.9%	Global HY 13.5%	Global IG 7.3%	Commodities -35.6%	Gold 25.0%	Global HY 13.9%	Cash 0.1%	Global IG 11.1%	Cash 0.1%	Cash 0.0%	Global IG -3.8%	Global IG 4.3%	Global IG 9.2%
Global HY -5.8%	REITS -7.8%	REITS -2.4%	Gold 19.9%	Commodities 9.1%	Cash 3.1%	Global IG 7.2%	S&P 500 5.5%	S&P 500 -37.0%	Global IG 19.2%	MSCI EAFE 8.2%	REITS -9.4%	Gold 8.3%	MSCI EM -2.3%	Global HY -0.1%	Global HY -4.2%	REITS 1.3%	Gold 8.9%
S&P 500 -9.1%	S&P 500 -11.9%	MSCI EM -6.0%	Global IG 14.5%	Gold 4.6%	US Treasuries 2.8%	Cash 4.9%	Cash 5.0%	MSCI EAFE -43.1%	Commodities 18.9%	Global IG 6.0%	MSCI EAFE -11.7%	US Treasuries 2.2%	US Treasuries -3.3%	MSCI EM -1.8%	Gold -10.4%	US Treasuries 1.1%	US Treasuries 2.8%
MSCI EAFE -14.0%	Commodities -19.5%	MSCI EAFE -15.7%	US Treasuries 2.3%	US Treasuries 3.5%	Global HY 1.5%	US Treasuries 3.1%	Global HY 3.0%	REITS -50.2%	Cash 0.2%	US Treasuries 5.9%	Commodities -13.3%	Cash 0.1%	Commodities -9.5%	MSCI EAFE -4.5%	MSCI EM -14.9%	MSCI EAFE 1.0%	Commodities 1.1%
MSCI EM -30.6%	MSCI EAFE -21.2%	S&P 500 -22.1%	Cash 1.1%	Cash 1.3%	Global IG -3.0%	Commodities 2.1%	REITS -10.0%	MSCI EM -53.2%	US Treasuries -3.7%	Cash 0.1%	MSCI EM -18.2%	Commodities -1.1%	Gold -27.3%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Cash 0.8%

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg; * 2017 annualized returns

Market Timing Doesn't Work

Look at the chart below. If you missed just 25 of the best "up" days in the last fifty years, your return is dismally lower. Do you think that you can figure this out in advance?

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You Should Not Watch Financial TV

Watch this convincing argument to sell stocks in 2010!

Eight years ago today, the best financial journalist told you it makes sense to sell.
[https://www.youtube.com/watch?v=tCMTeweaiCQ ...](https://www.youtube.com/watch?v=tCMTeweaiCQ)

Now, look at the chart below of what happened over the next 12 months (and of course, we know the market continued to rise impressively for the next four years)

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Miscellaneous

What kills us is changing quickly

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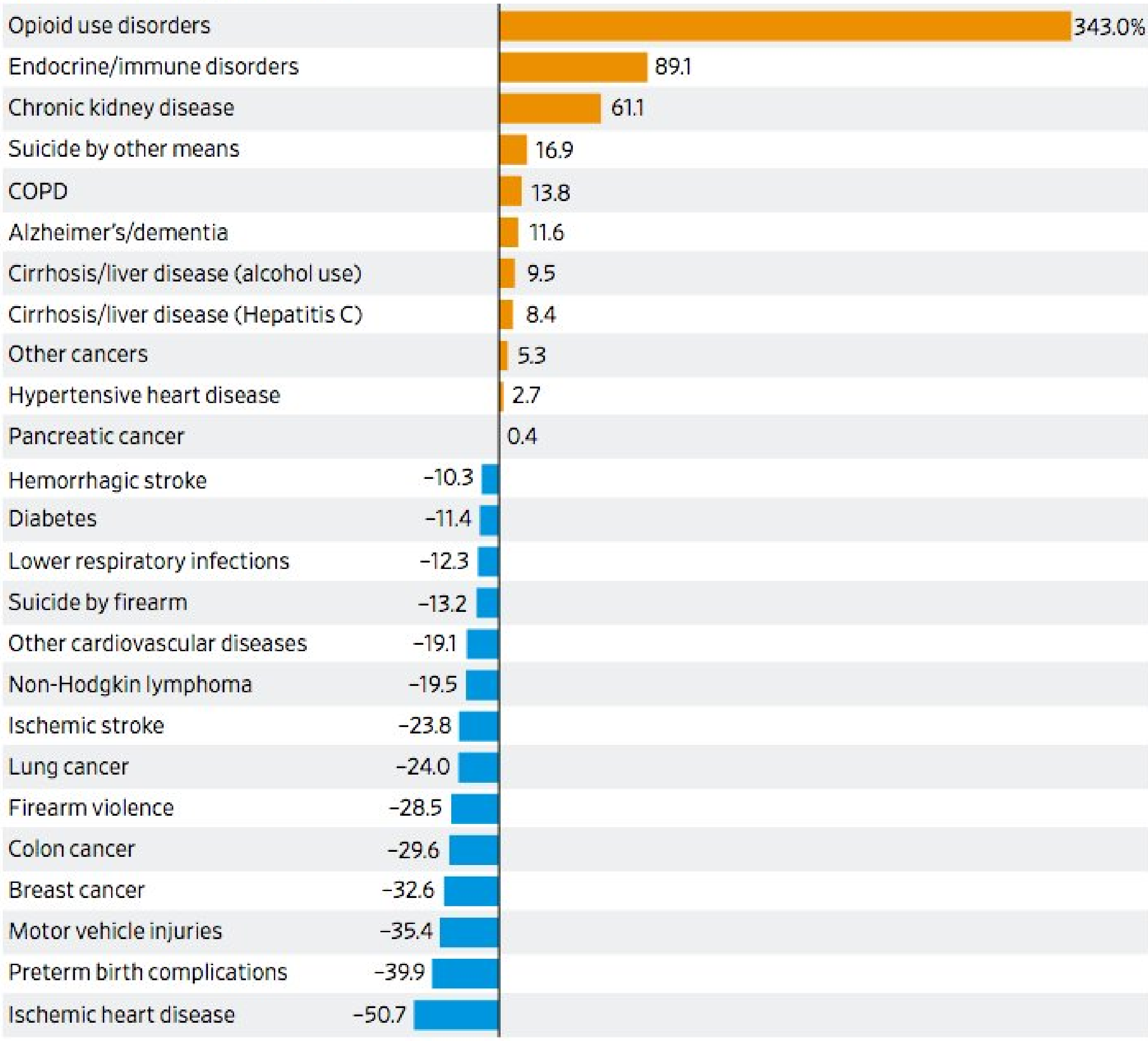
Percentage change in the age-standardized death rate for the leading 25 causes of death in the U.S., 1990 to 2016



Recommendo

A tremendous list of "recommended" hints and items to review. You can sign up for a free weekly list here as well.

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https://2017.recomendo.com/

Random Notes

Time is more valuable than money. Yes, it's terrible to run out of money. But it's a tragedy to run out of time.-Jonathan Clements

"I never got a job from a poor person." —Staff Sergeant Randolph Elder

"The best way to teach your kids about taxes is by eating 30% of their ice cream."-- Bill Murray

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