



## Wealth Care LLC September 2022 Commentary

### Time is Key

The chart below is wonderful. It is easy to see the wide dispersion of possible outcomes when investing in stocks, bonds, and a mixed portfolio in any given year (of the last seventy one). The possible negative returns look a lot like 2022 so far. But look out further in time-the chance of a negative return is almost gone at five years and average returns are wonderful. A twenty year time horizon eliminated negative returns and had very solid positive returns. This is why we emphasize investing for the long term and not watching your portfolio closely.

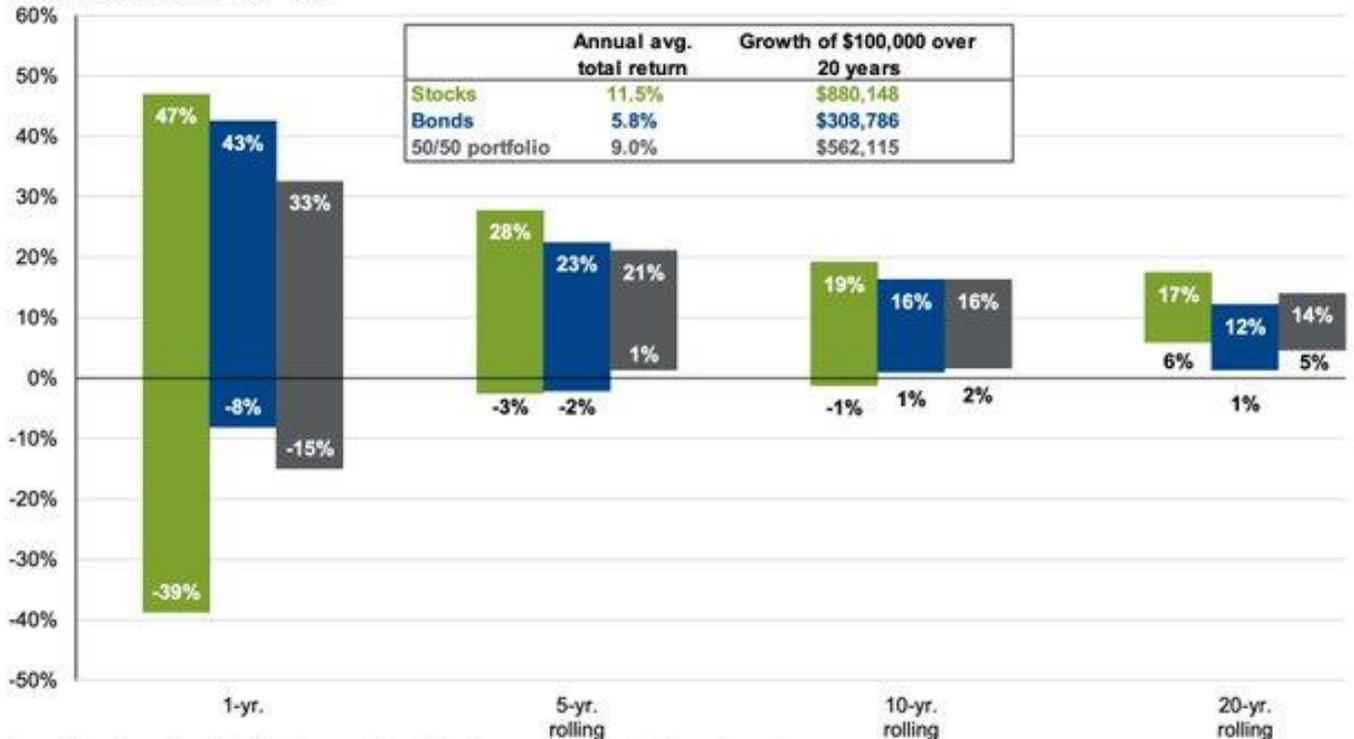


## Time, diversification and the volatility of returns

GTM U.S. 62

### Range of stock, bond and blended total returns

Annual total returns, 1950 - 2021



Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2021. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2021. Guide to the Markets - U.S. Data are as of June 30, 2022.

J.P.Morgan  
ASSET MANAGEMENT

## Why do we own fixed income?

We published an explanation of what fixed income is in July:

<https://www.floridatoday.com/story/news/2022/07/10/my-portfolio-mixed-bag-assets-what-does-fixed-income-mean/10006937002/>

Let's again define fixed income as investments in which you loan an entity (a corporation, a city, a country) money in exchange for interest and eventually getting back your initial investment. Like a bank CD.

[www.WealthCareLLC.com](http://www.WealthCareLLC.com) | F. 815.301.3777

Steven Podnos MD, MBA, CFP® P. 321.543.1099 E. Steven@wealthcarellc.com • Rachel Podnos O'Leary J.D., CFP® P. 321-505-7592 E.

Rachel@wealthcarellc.com

Lauren Podnos, CFP® P. 321-537-7502 E. Lauren@wealthcarellc.com • Jacob Podnos CFP®, RICP® P. 321-432-0344 E. Jacob@wealthcarellc.com



We might own fixed income just to get the interest- and this makes sense in the short term for sure. Short term fixed income can be a safe place to store money and get a little bit of interest as well. But long term, fixed income might not allow you to keep up with the steady erosion of purchasing power by inflation and taxes. When interest rates paid by fixed income investments are stable and higher than inflation, then the “real” (return after inflation) return can be very slightly positive. But in the current environment of inflation and increasing interest rates, fixed income investments are unlikely to maintain purchasing power.

Typically, fixed income served as a store of value in a portfolio-and one that could potentially increase total return when combined with stocks. When the stock market does its usual bear market drop in prices every few years, fixed income funds might either be stable or even increase in price (as investors run towards what they believe is “safer.”)

If the purpose of the fixed income in your portfolio is to be this store of value for drops in stock prices, then the fixed income should probably be of relatively high safety (best guaranteed by the US government or the highest quality corporations).

Fixed income funds that invest in less safe areas are likely to have higher interest rates to compensate, but are susceptible to business cycle issues like recessions and may not stabilize a portfolio as well.

Probably, the best strategy is to own traditional long term safe fixed income when interest rates are higher than inflation and relatively stable. At other times, less traditional fixed income might play a larger role.

---

## Great Companies are not always Great Stocks

One dollar invested in General Electric in 1994 is worth one dollar today (and that dollar buys a lot less)

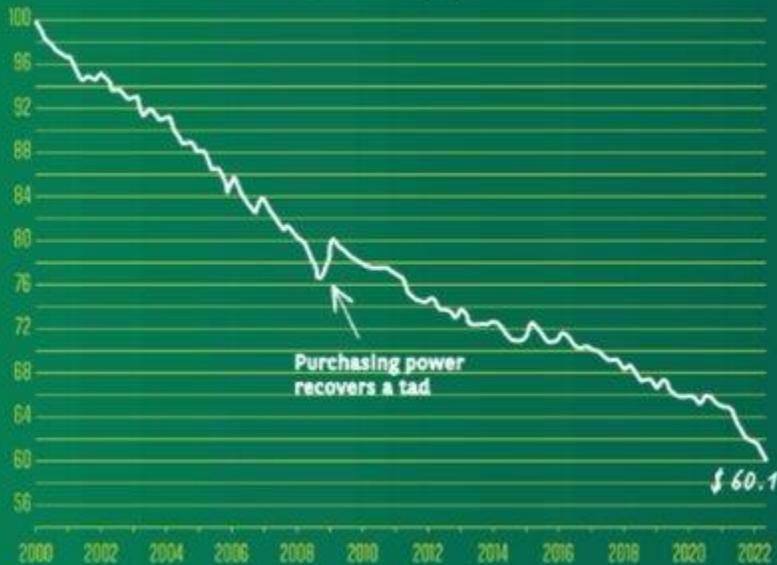


## Inflation

Inflation is so very corrosive and is a big reason why we need to make earnings just to maintain purchasing power. Look at the chart below of the time period 2000-2022! You need almost twice the dollars in 2022 to buy the same amount of “stuff” as you did in 2000.



Purchasing power of \$100 since Jan 1, 2000  
\$, not seasonally adjusted



1. We are at a pivotal moment
2. We are in a period of new, higher inflation
3. Low real interest rates = real assets

Source: BLS, St. Louis Fed

and unless “things are different” (which they never really are), stocks do the trick on battling inflation:



- US Consumer Price Index: Purchasing Power Of the Consumer Dollar
- S&P 500 Real Price



COMPOUND @CharlieBilello

Jul 13 2022, 11:10AM EDT. Powered by YCHARTS

## How much do we need to save?

We are asked this question at every initial financial planning meeting and often in follow up. The chart below is not perfect, but a reasonable guideline:

[www.WealthCareLLC.com](http://www.WealthCareLLC.com) | F. 815.301.3777

Steven Podnos MD, MBA, CFP® P. 321.543.1099 E. [Steven@wealthcarellc.com](mailto:Steven@wealthcarellc.com) • Rachel Podnos O'Leary J.D., CFP® P. 321-505-7592 E.

[Rachel@wealthcarellc.com](mailto:Rachel@wealthcarellc.com)

Lauren Podnos, CFP® P. 321-537-7502 E. [Lauren@wealthcarellc.com](mailto:Lauren@wealthcarellc.com) • Jacob Podnos CFP®, RICP® P. 321-432-0344 E. [Jacob@wealthcarellc.com](mailto:Jacob@wealthcarellc.com)



Savings Rate (Percent)	Working Years Until Retirement
5	66
10	51
15	43
20	37
25	32
30	28
35	25
40	22
45	19
50	17
55	14.5
60	12.5
65	10.5
70	8.5
75	7
80	5.5
85	4
90	Under 3
95	Under 2
100	Zero

You can look at the chart either way! If you save 35% of your income, you should be able to retire comfortably in 25 years. Conversely, if you have 19 years left to work and little savings, you should consider saving 45% of your income.

### Understanding the Back Door Roth

Every year just before income tax filing (usually late March and September), we get inquiries from families we work with as well as their accountants about Back Door Roth events.



A Roth IRA involves making a contribution of after tax funds, that then grow tax free (the original contribution as well as all future earnings/growth forever). But, most of the families we work with make more than the allowed income levels for a direct contribution.

In addition, you may also be allowed to make a deductible Traditional IRA contribution which then grows tax deferred (but all withdrawals will be taxed). However, most of our families make too much income (especially if either spouse participates in a 401k plan) to do this as well.

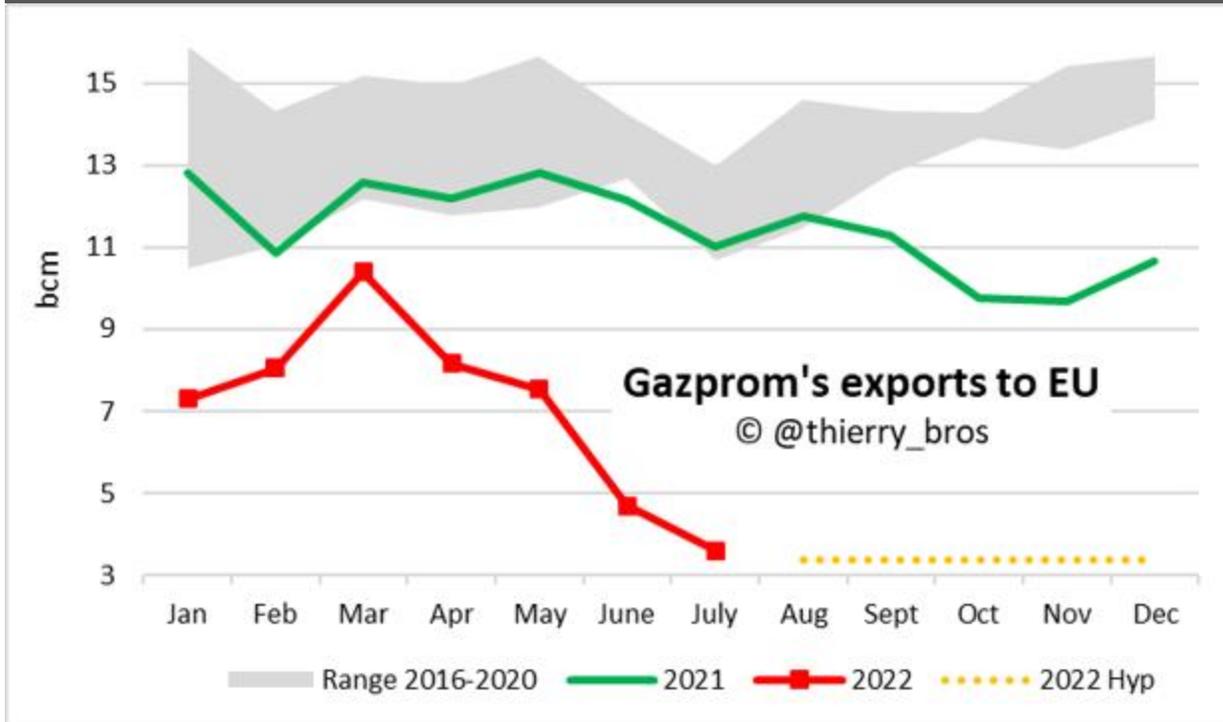
Even if you cannot make a deductible Traditional IRA contribution, you can always make a non-deductible Traditional IRA contribution annually. This contribution will be withdrawn (proportionally) tax free, but any earnings/growth on it will be taxable on withdrawal in the future.

Here's the loophole! You may move money from a Traditional IRA at will to a Roth IRA. If the money you move was never taxed (deducted), then this event is taxable. But, if the money was not taxed on contribution-i.e., a non deducted Traditional IRA contribution-then the conversion to a Roth IRA is non taxable (and is called a "back door Roth").

We'll remind you, but you must let your accountant know about this at least the first time it happens. We'll always put it in our notes to families we work with. If a family/individual has only a small pretax IRA to begin with, we may suggest that we move the money into a Roth so that there is no pretax money left-which will allow tax free Back Door Roth events to happen in the future. If an individual has a large pretax IRA, then it usually precludes doing the Back Door Roth.

## Miscellaneous

A cold winter for Europe will be the result of markedly lower gas exports from Russia. The Europeans chose to increase supplies from Russia over the last decade.



## Miraculous

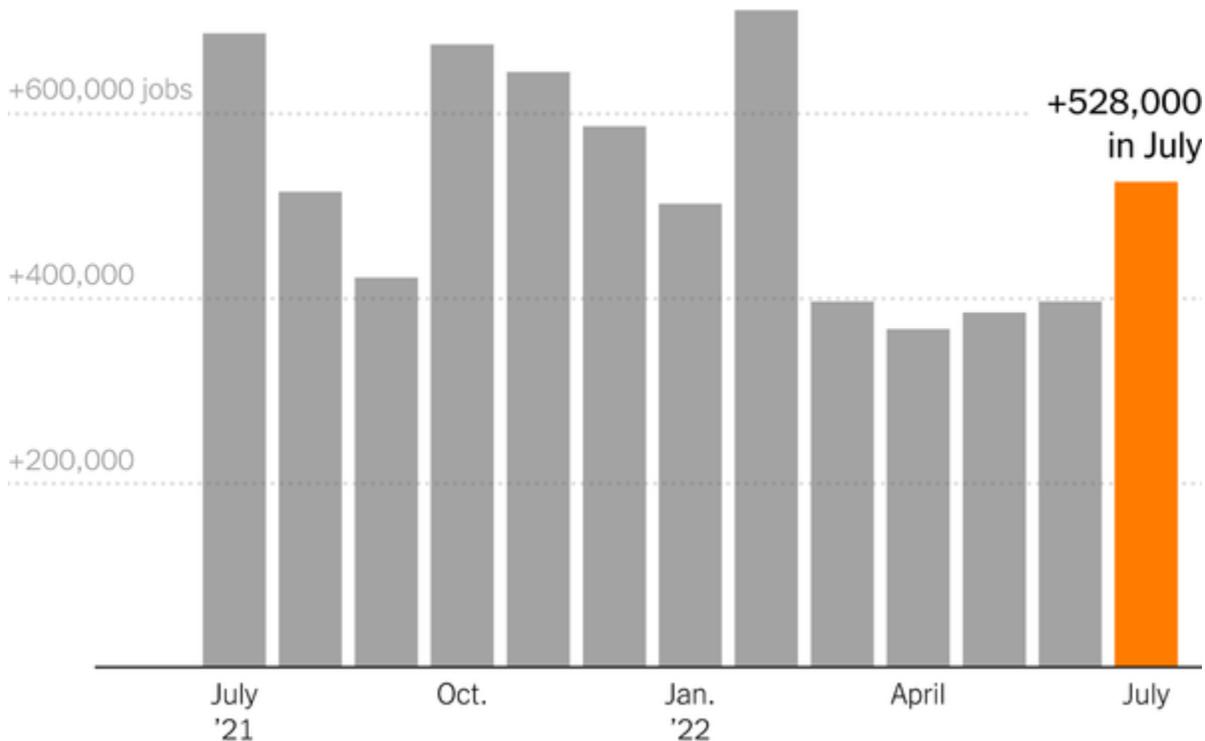
Just a decade after Crispr was invented, the first drug to make use of the revolutionary gene-editing technology will be with regulators by the end of the year, with the promise that it will eventually transform the treatment of genetic diseases. In 2012, [Nobel Prize winners Jennifer Doudna and Emmanuelle Charpentier](#) published a scientific paper proving a key part of the bacterial immune system could be used to cut DNA: disrupting, deleting or correcting genetic errors. Their discovery started a race by start-ups to create transformative — and possibly even curative — treatments, which has developed much faster than previous advances in biology. The first to close in on success is [Crispr Therapeutics](#) which, in partnership with biotech group Vertex, expects to submit late stage trial data seeking approval for its treatment for the inherited blood diseases sickle cell anaemia and beta thalassaemia to EU and UK regulators at the end of 2022. Its latest data show all sickle cell patients were free of symptoms and that the vast majority of beta thalassaemia patients were no longer reliant on transfusions. Doudna said it was “extraordinary” that sickle cell patients such as Victoria Gray, who was treated in the first trial three years ago, [have already been “effectively cured of genetic disease.”](#) “One of the most surprising and exciting things to me is just how rapidly it’s been possible to apply it in the clinic,” she told the Financial Times. “It has been the foundation for multiple companies, created



tens of billions of dollars in value, and many, many thousands of jobs.” (Sources: [ft.com](https://www.ft.com), [nobelprize.org](https://www.nobelprize.org), [crisprtx.com](https://www.crisprtx.com))

A Really Weird Recession with massive job growth and record low unemployment:

### Monthly change in jobs



## Random Thoughts

### Taleb’s “Look the Part” Test

Nassim Nicholas Taleb famously proposed this rule of thumb in his best selling book, *Skin in the Game*.

He talks about choosing between two surgeons of equal qualification and experience. One looks highly-refined and one looks like a butcher. Quoting from the book: "Simply the one who *doesn't* look the part, conditional of having made a (sort of) successful career in his profession, had to have much to overcome in terms of perception."



Generalizing the rule, if forced to choose between two options of seemingly equal merit, choose the one that doesn't look the part.

The one who doesn't look the part has had to overcome much more to achieve its status than the one who fit in perfectly.



You don't look like your favorite photos of yourself. -Rob Henderson

If you loan someone \$20 and you never see them again because they are avoiding paying you back, that makes it worth \$20.

I'm continually surprised at how much even very famous, very rich, very powerful people appreciate a kind word about their latest TV appearance, accomplishment or project. The point

[www.WealthCareLLC.com](http://www.WealthCareLLC.com) | F. 815.301.3777

Steven Podnos MD, MBA, CFP® P. 321.543.1099 E. [Steven@wealthcarellc.com](mailto:Steven@wealthcarellc.com) • Rachel Podnos O'Leary J.D., CFP® P. 321-505-7592 E.

[Rachel@wealthcarellc.com](mailto:Rachel@wealthcarellc.com)

Lauren Podnos, CFP® P. 321-537-7502 E. [Lauren@wealthcarellc.com](mailto:Lauren@wealthcarellc.com) • Jacob Podnos CFP®, RICP® P. 321-432-0344 E. [Jacob@wealthcarellc.com](mailto:Jacob@wealthcarellc.com)



of this isn't that "celebrities are people too," it's that if praise from a friend/acquaintance still registers even at that level, what do you think it means to your kids or to your co-worker/employees or to your siblings and friends?-Ryan Holiday

-

Nobody will remember:

- Your salary - Your fancy title - How 'busy' you were - How stressed you were - How many hours you worked

People will remember:

- The time you spent with them - How you made them feel - If you kept your promises - If you were there for them-Lisa Dinsdale

WEALTH CARE  
LLC



The official sports drink  
when I was a kid..



**The Wealth Care LLC Team September 1, 2022**

[www.WealthCareLLC.com](http://www.WealthCareLLC.com) | F. 815.301.3777

Steven Podnos MD, MBA, CFP® P. 321.543.1099 E. [Steven@wealthcarellc.com](mailto:Steven@wealthcarellc.com) • Rachel Podnos O'Leary J.D., CFP® P. 321-505-7592 E.

[Rachel@wealthcarellc.com](mailto:Rachel@wealthcarellc.com)

Lauren Podnos, CFP® P. 321-537-7502 E. [Lauren@wealthcarellc.com](mailto:Lauren@wealthcarellc.com) • Jacob Podnos CFP®, RICP® P. 321-432-0344 E. [Jacob@wealthcarellc.com](mailto:Jacob@wealthcarellc.com)