Wealth Care LLC Monthly Commentary-May 2018

Investment Thoughts

Over the last month, I went back and did an intensive review of the financial press during the time periods 1999-2003 and then again for 2007-2010. Both periods contained two of the worst four bear markets in US history.

The 2000 market decline was related to a drop in extremely high stock valuations, primarily in the tech/internet sector. It was a clear mania, with Fed Chair Greenspan announcing that the market has "irrational exuberance" in 1996. He was quite early, as the market kept screaming upwards for over three more years. The bear market began in March of 2000, with the secondary trauma of 9/11/01 hitting the next year. So, despite some awareness that prices were too high, almost no one could time the reversion to lower prices. Mutual fund managers had to compete with the rapidly rising Nasdaq market (tech and internet stocks mostly) and accelerated the frenzy upwards. That group of stocks dropped in price an average of almost 80% over the next three years and even quality stocks that were not overpriced were dragged down.

The lessons of this market decline (to me anyway), were:

Bear Markets can't be timed. You can neither know when they will start, nor how severe or how long they will be. You also cannot know the "bottom" as a time to buy.

Having a diversified portfolio was crucial. The stocks that did the worst and did not regain their prices were the very overvalued Nasdaq stocks. Having a "normal" allocation to this asset class would have protected the average investor (and did), so that they could regain losses and make money again beginning in 2003.

www.WealthCareLLC.com | F. 815.301.3777
Steven Podnos MD, MBA, CFP® P. 321.543.1099 E. Steven@wealthcarellc.com • Rachel Podnos J.D., CFP® P. 321-505-7592 E. Rachel@wealthcarellc.com
Lauren Podnos, CFP® P. 321-537-7502 E. Lauren@wealthcarellc.com

The market decline of 2008 was a different animal. Here stocks dropped as a result of a financial/economic crisis due to the collapse in housing prices. Again, it was not hard to see that real estate prices were moving too high and too quickly, but again many were swept up in the euphoria. The stock market was affected secondarily, not being particularly overvalued itself. But this time everything was sold off. The S&P 500 dropped over 50% in price by March of 2009, and diversification didn't help much other than with high quality fixed income. By early 2009, the bear market was over, and we've had ten years of gains with more than a tripling of the DOW 30 index since 2009.

The lessons of that market decline to me were:

Bear Markets can't be timed. You can neither know when they will start, nor how severe or how long they will be. You also cannot know the "bottom" as a time to buy.

Diversification neither helped nor hurt this time. What was important was not to sell out of panic or need (why stock investments should be long term). This strategy paid off just fine.

There is little doubt in my mind that we'll again have a true bear market. But I don't know when, how long it will take, how bad it will be, or what will cause it. Neither does anyone else. What I do know is that these markets happen every 5-7 years since WW2, and yet the long term trend of the stock market remains up (see the next section).

Steven Podnos MD, MBA, CFP® P. 321.543.1099 E. Steven@wealthcarellc.com • Rachel Podnos J.D., CFP® P. 321-505-7592 E. Rachel@wealthcarellc.com
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There is always a good reason to sell. On the graph below are just some of the steady drumbeat of headlines designed to grab attention. They were all bad advice:

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Remember this?

Do you remember seeing this photo? This was just before the Beanie Baby Bubble crashed, never to recover. This couple is splitting up their collection in divorce court. You can't make this stuff up.

What will the next mania be?

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Nobody can be right all the time: Despite being one of the best money managers of all time, see this graph of Berkshire Hathaway's largest declines in the last 40 years. And, BH has underperformed the S&P 500 for the last ten years as well. If Warren Buffett has long periods of underperformance, why would you expect anything differently for your own portfolio?

Berkshire Hathaway Largest Losses Since 1980	
1981-1982	-19%
1987	-37%
1989-1990	-37%
1998-2000	-49%
2007-2009	-51%

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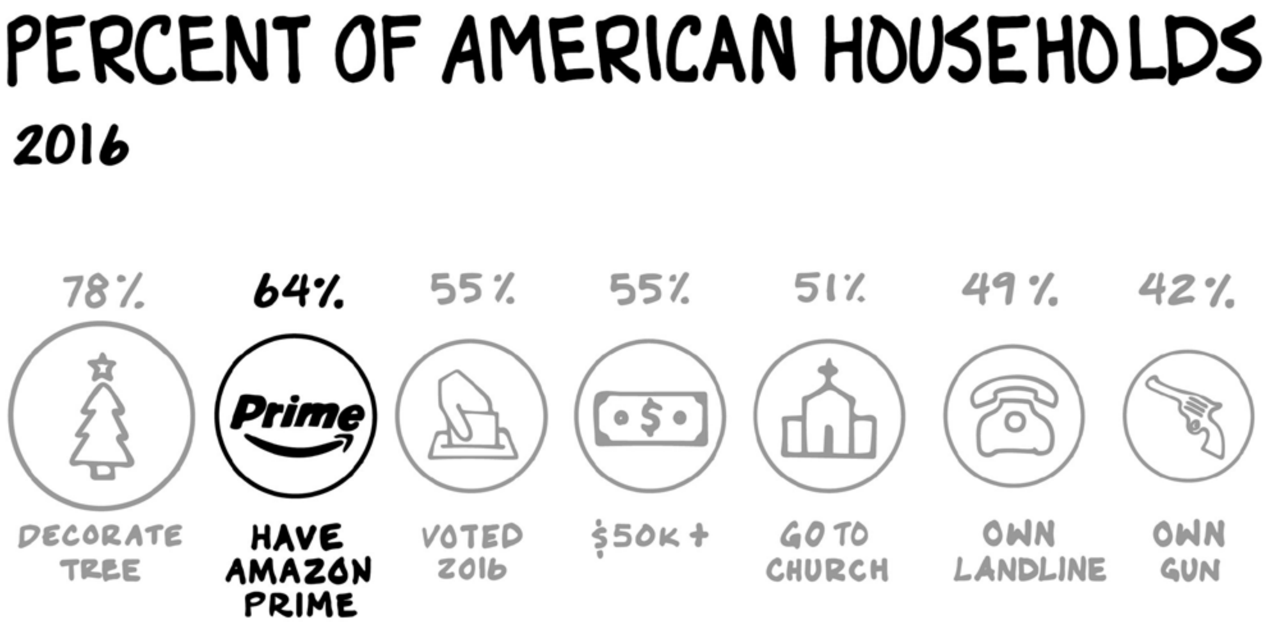
Miscellaneous



How To Find Out What Information Facebook is Keeping on You

http://www.dailymail.co.uk/sciencetech/article-5547289/How-download-mountains-data-Facebook-including-call-logs-text-messages.html

Random Notes

If you think today's purchase will make you happy forever, you need to spend more time looking through your closets.-Jonathan Clements

Imagine telling someone in 2003 that someday Netflix, which was mailing DVDs at the time, would surpass General Electric in market value…

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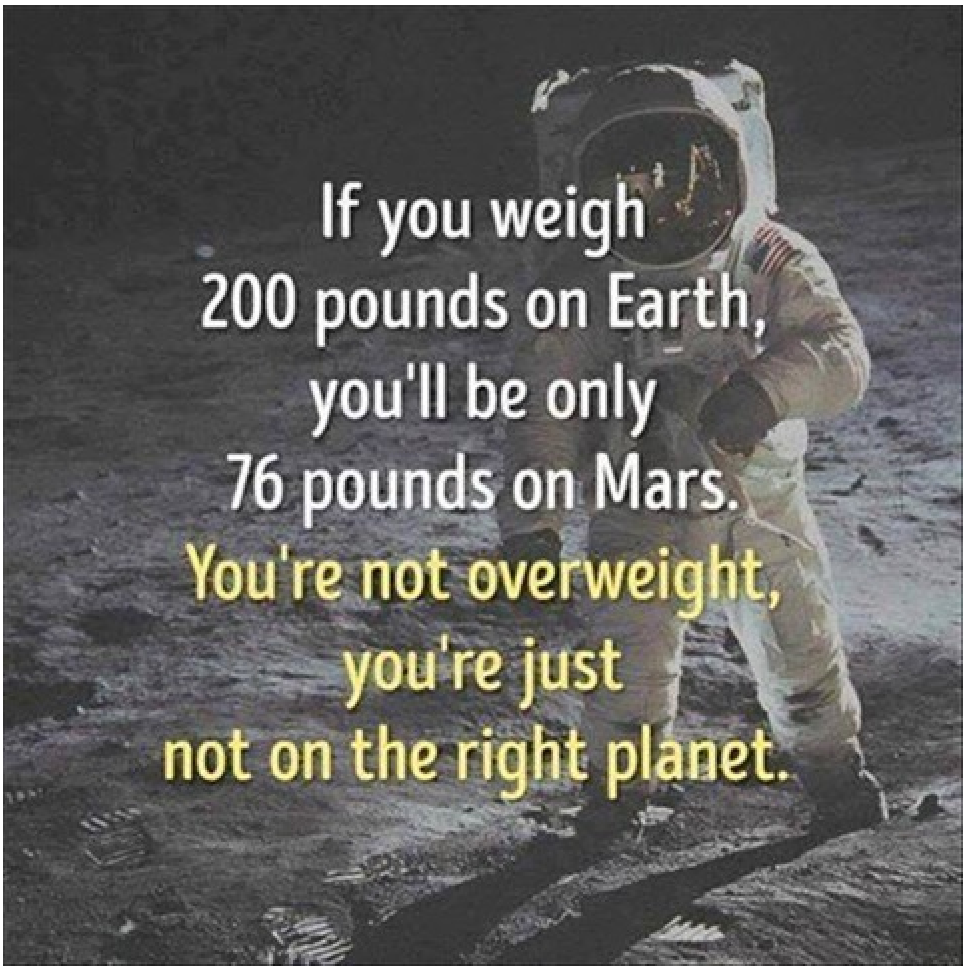
"The desire to get rich fast is pretty dangerous." -Charlie Munger



Steven Podnos MD CFP® for Wealth Care LLC 5-1-2018

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