



Wealth Care LLC December 2021 Commentary

Investment Thoughts

As we have discussed over the last few commentaries, inflation is on our minds. Every week brings more evidence of significant price increases in all the things we buy. And, as we have mentioned, we are mostly concerned with the effect on Fixed Income investments rather than on stocks.



Even though interest rates have not risen much with the expectations and experience of inflation, our “real” yields (the return of any investment gains after inflation) are negative with most fixed income.

Real Yields Are Really Low

Amid all the excitement over inflation, real yields barely budged

■ US Generic Govt TII 10 Yr - Last Price (R1) ■ US Generic Govt TII 2 Year - Last Price (L1)



Source: Bloomberg

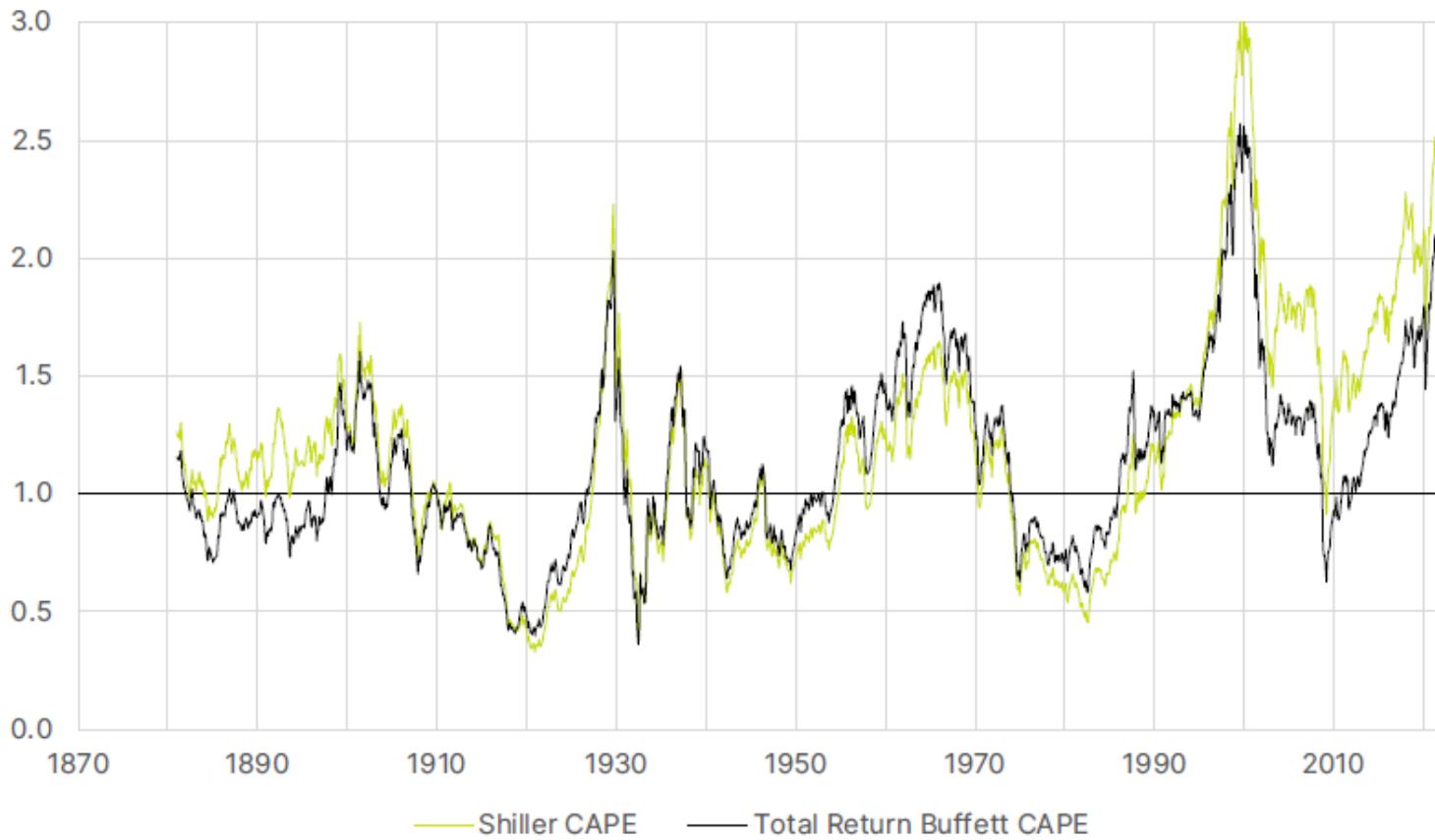
History shows that companies can adjust to rising costs by raising the prices of what they produce and stocks in general do reasonably well in mild and moderate inflation.



Inflation can exist in liquid investments also-so we can see rising prices in the investments we want to buy. The chart below suggests that the “price” of the stocks in the *largest* US index (the S&P 500-large US companies) has only been more expensive once in the last 100 years (and it was just before the bear market of 2000-2002).

Exhibit 7: Shiller CAPE and Total Return Buffett CAPE of the S&P 500 relative to their long-term harmonic averages

January 1881–June 2021



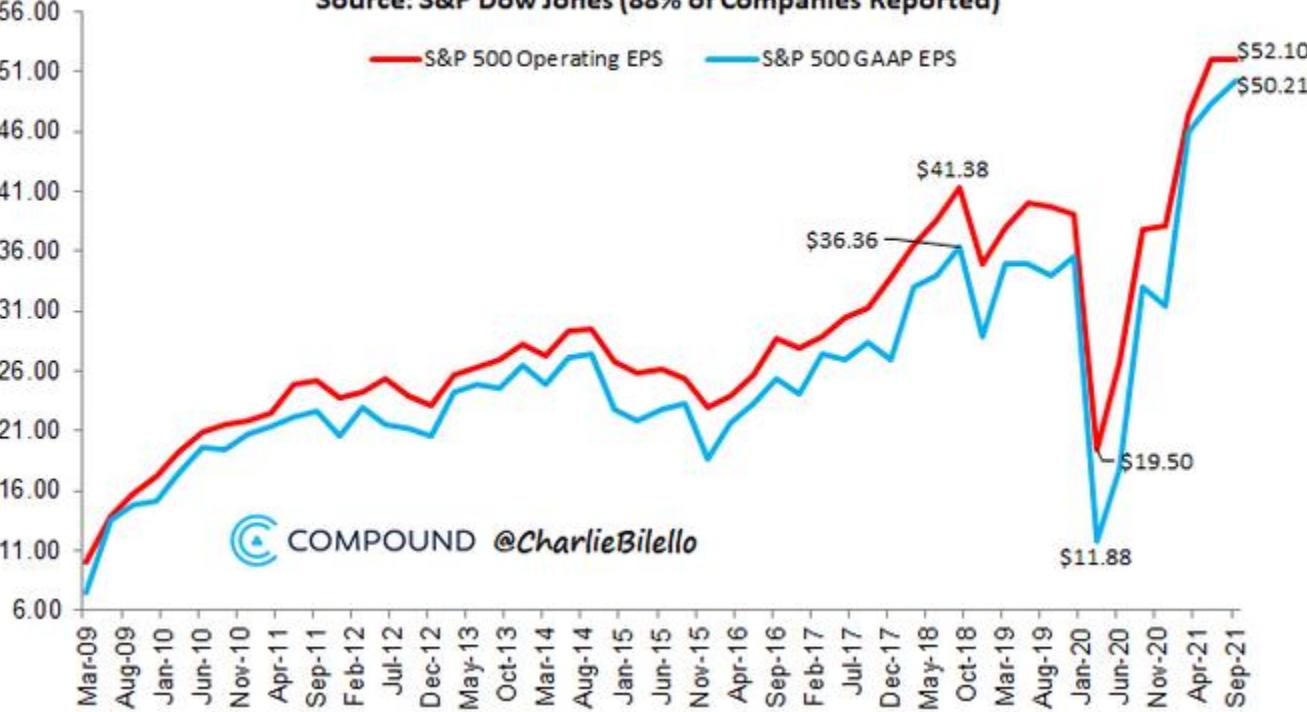
Source: Prof. Shiller, Oliver Wyman

Now, the earnings of these companies are also rising such that the valuation can remain stable with even higher prices. But, we think this asset class might be getting too rich.



S&P 500 EPS (Quarterly)

Source: S&P Dow Jones (88% of Companies Reported)



Conversely, US stocks that are outside this index (small and mid size companies) are a decades long lows in comparison. ? Maybe more value there.



'Ridiculously Cheap'

Stocks outside S&P 500 reach lowest relative valuation in years

■ Average current-year estimated P/E for non-S&P 500 stocks relative to S&P 500



Source: Bloomberg. Based on S&P MidCap 400, SmallCap 600, MSCI All-Country World Ex-U.S. indexes.

EXSPX G Index (Avg P/E MID, SHL, MXWDU vs SPX) MID/SML/MXWDU vs SPX Daily 01JA

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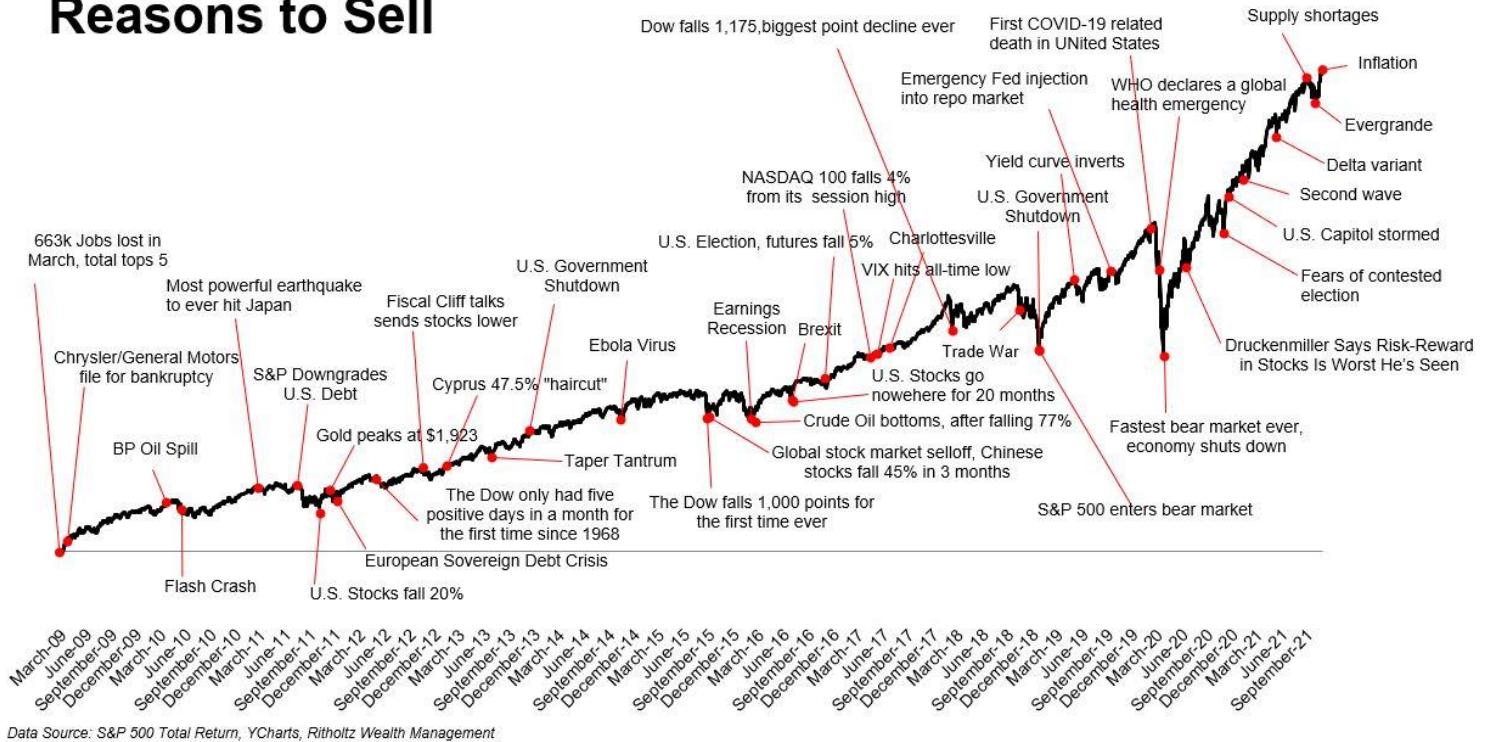
Bloomberg

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If we

think the S&P 500 index is too pricy-should we sell? It seems there is always a reason to sell, which is often a bad decision (see the next chart).

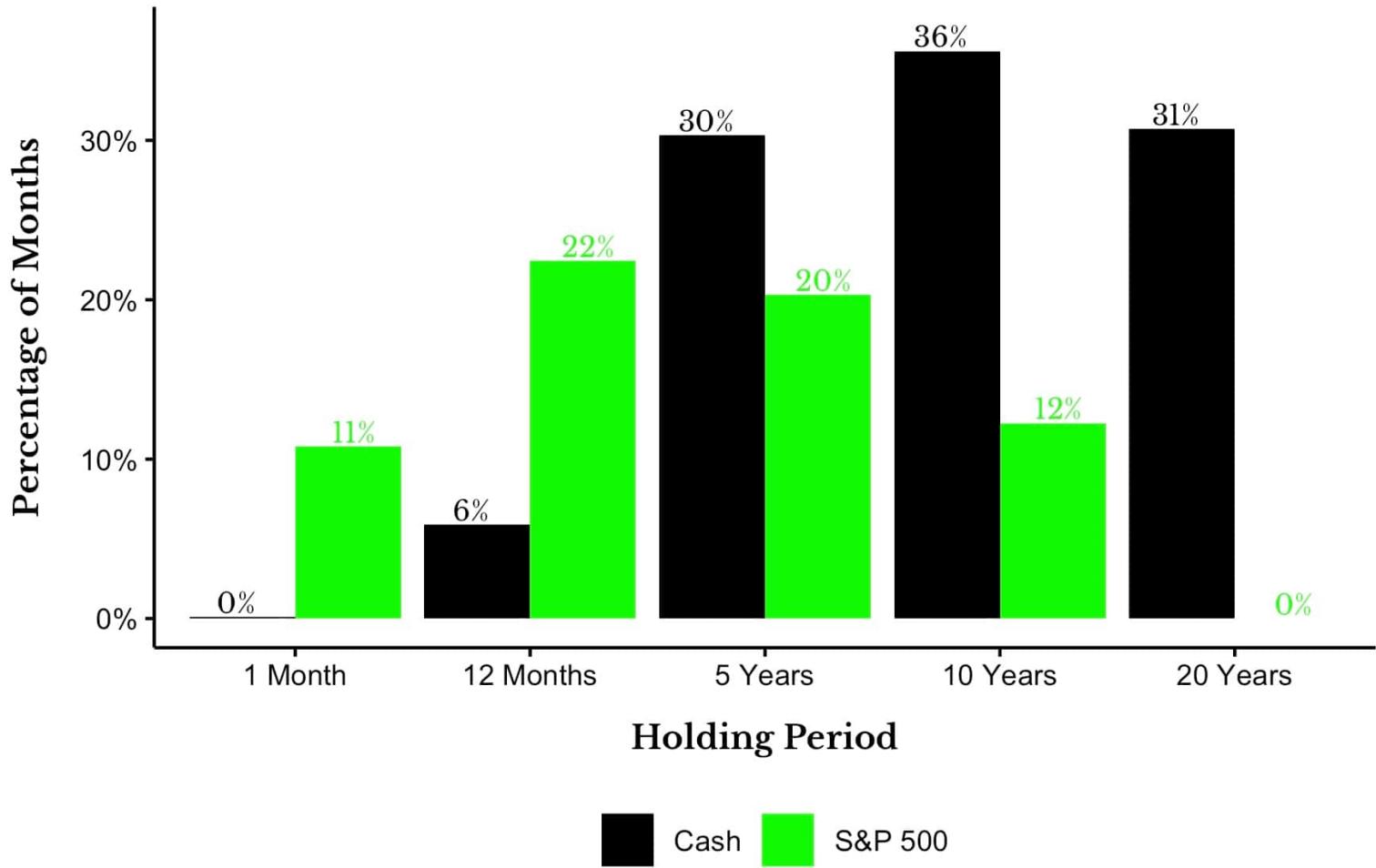
Reasons to Sell



We also have the luxury of being long term investors, which greatly reduces the risk that we won't make money. Take a look:



Probability of Investment Being Down >5% by Holding Period



Source: Returns 2.0, 1926-2021 (OfDollarsAndData.com)

Note: All returns adjusted for inflation. Cash return is 1-Month Treasury Bills.

Wealth Care LLC Investment Strategy

Given all the above information, we continue to believe a disciplined and diversified stock portfolio is the best strategy. For those that need or want fixed income in any significant amount, we continue to use a diversified portfolio of (perhaps) non-traditional fixed income funds that are holding up well (preferred stock, high yield bonds, international fixed income, and “go-anywhere” type funds). We emphasize

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



diversified as so many “name” stocks can crater in a positive stock market environment:

% Below All-Time Closing High		
Company	Ticker	% Below High
Nasdaq 100	QQQ	0.0%
PayPal	PYPL	-37.3%
Twitter	TWTR	-37.7%
Snap	SNAP	-38.3%
Chewy	CHWY	-38.6%
Lyft	LYFT	-39.3%
Palantir Technologies	PLTR	-45.1%
DraftKings	DKNG	-49.8%
Pinterest	PINS	-49.8%
Roku	ROKU	-51.2%
Wix.com	WIX	-52.0%
PagsSeguro	PAGS	-52.0%
Bumble	BMBL	-53.9%
Redfin	RDFN	-54.3%
Baidu	BIDU	-55.4%
Alibaba	BABA	-55.8%
Zoom	ZM	-55.8%
Robinhood Markets	HOOD	-58.8%
Teladoc Health	TDOC	-60.3%
CRISPR Therapeutics	CRSP	-60.8%
Penn National Gaming	PENN	-61.6%
Beyond Meat	BYND	-67.0%
Virgin Galactic	SPCE	-71.0%
Lemonade	LMND	-71.2%
Peloton Interactive	PTON	-71.8%
Zillow	ZM	-71.9%
Stitch Fix	SFIX	-73.1%
Clover Health	CLOV	-74.0%
Tencent Music	TME	-76.0%
Chegg	CHGG	-76.6%
C3.ai	AI	-77.5%
StoneCo	STNE	-79.7%
SmileDirectClub	SDC	-81.4%
Nikola	NKLA	-85.1%

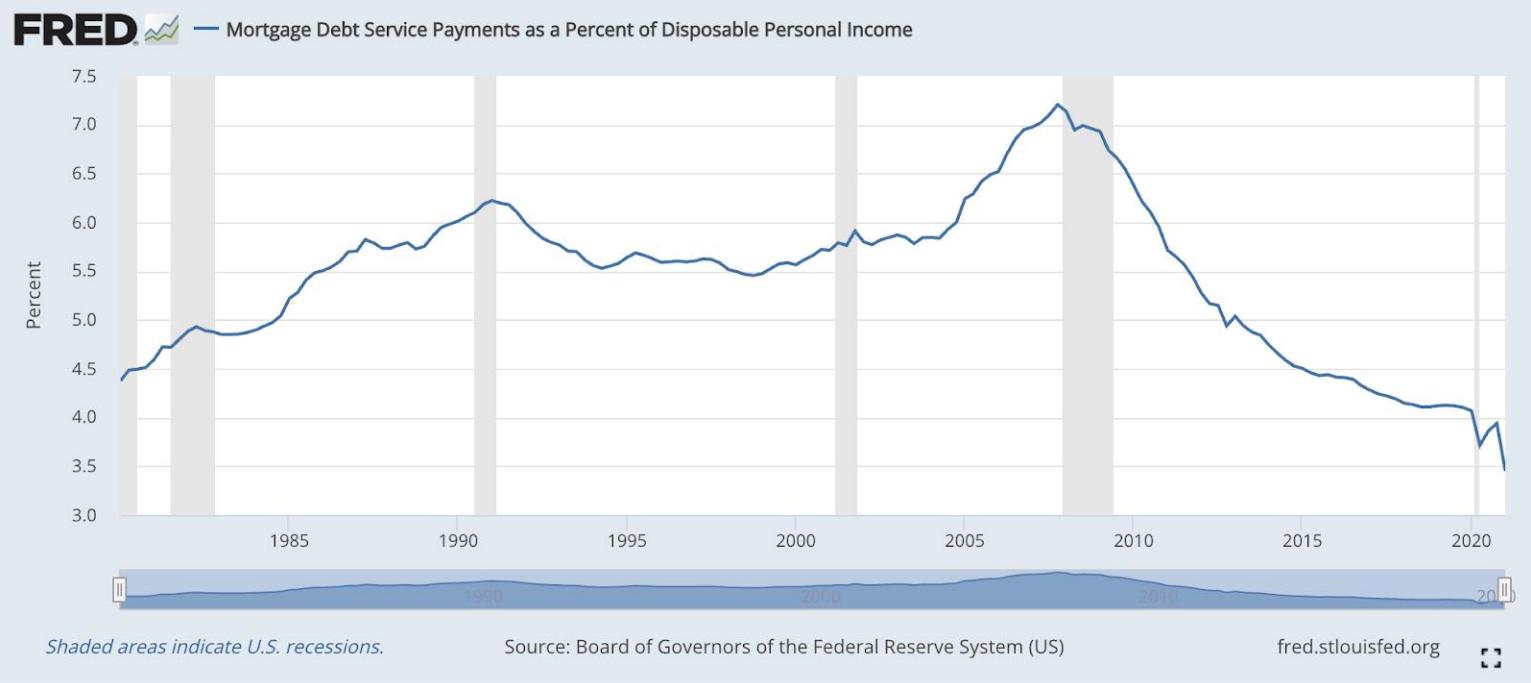
 COMPOUND

@CharlieBilello

Miscellaneous



We touched on this in a recent commentary. Mortgage interest rates are so low, that even more expensive houses are more affordable than ever.



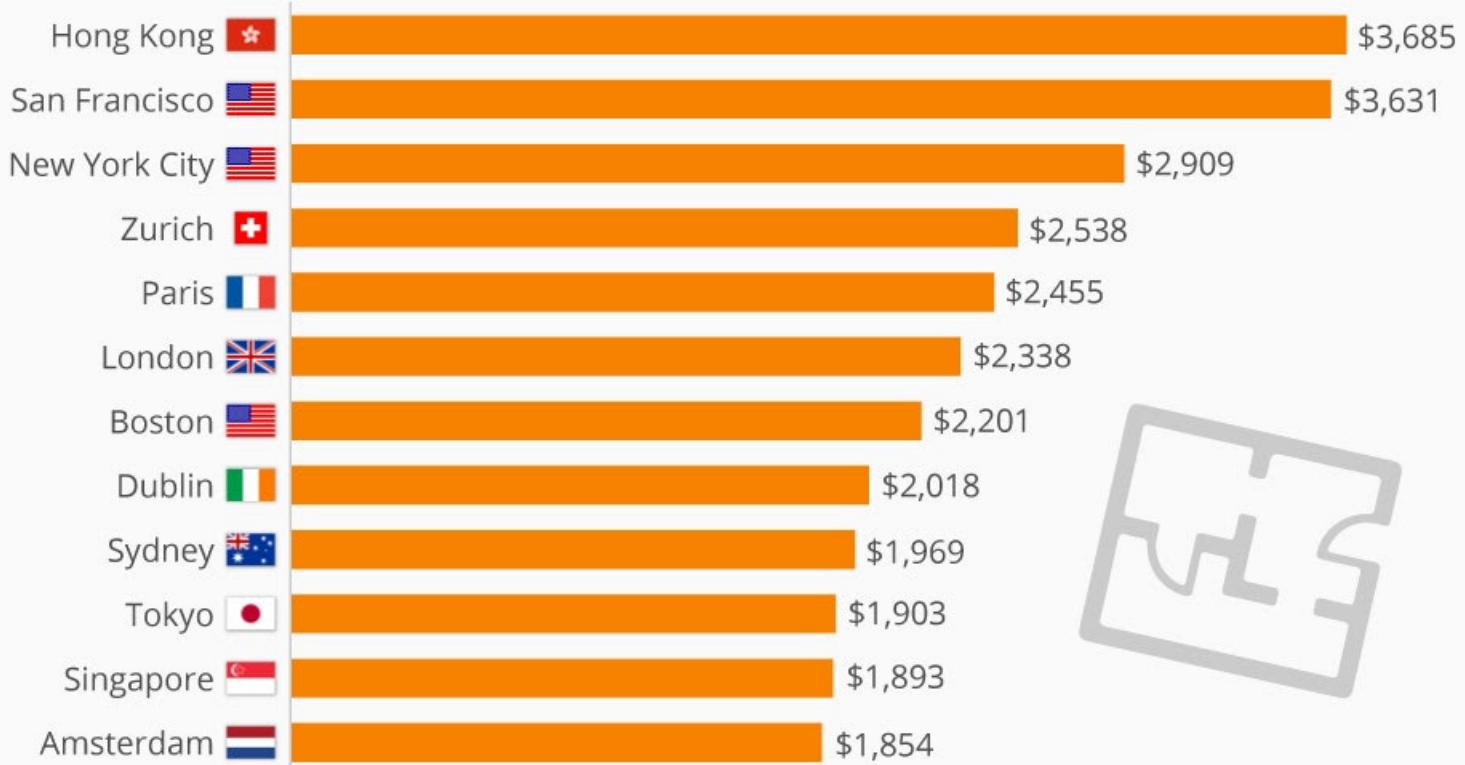
Internet Browser Security Tips

<https://www.cnet.com/tech/services-and-software/browser-settings-to-change-asap-in-chrome-safari-firefox-and-more-to-protect-your-privacy/>



Where Renting Costs the Most

Cities with the highest average monthly cost of a mid-range 2 bedroom apartment in 2019*



* Research was conducted in 55 cities around the world.

Source: Deutsche Bank

statista

Random Thoughts

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NASA's New Horizons spacecraft passed Pluto in 2015 within one minute of what it predicted when it launched in 2006. Three billion miles, 99.99998% accurate.

Random Market Declines Become Far Less Scary

Once You Understand That
They Are Perfectly Normal



 @brianferoldi



Things that didn't exist 15 years ago:

iPhone Instagram TikTok Bitcoin WhatsApp Zoom Uber Airbnb iPad Snapchat Kindle DoorDash Slack Twitch Bumble Fitbit Canva Dropbox Venmo Robinhood Pinterest Ethereum Samsung Galaxy Netflix streaming Instacart Lyft Stripe Square Coinbase

Remember when you wanted what you currently have?

Bad things can happen fast, but almost all good things happen slowly.

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