Wealth Care LLC Monthly Commentary-July 2018

Markets

We've seen more volatility up and down in the first half of 2018 than in all of 2017, with the net effect of having a "flat" market. This is completely normal (as would be the market going up or going down). We know that short term moves (I call short term anything less than a few years) are meaningless. If you watch closely, you are likely to be more anxious and less happy. Just don't look. Any money in global equities should be there for many years, and will benefit from the superior long term performance of equities over just about any other asset class. If you are concerned still, give us a call.

The chart below is from the end of May. It shows that stocks in general, but especially in the US are outperformers for the last five years. Domestic bonds and interest sensitive real estate are suffering from the recent rise in interest rates. Most intriguing is the relative underperformance of both developed and emerging markets stocks compared to the US over the last several years. Remember, these things go in cycles.

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Asset Class	Index	Month	YTD	Trailing 1 Year	Trailing 3 Year	Trailing 5 Year
Total Returns in USD – Periods greater than 1 year are annualized						
Stocks						
World	MSCI ACWI NR USD	-0.2%	0.1%	11.8%	7.5%	8.9%
US	S&P 500 TR USD	1.6%	2.0%	14.4%	11.0%	13.0%
Developed Int'l	MSCI EAFE NR USD	-2.2%	-1.5%	8.0%	4.3%	5.9%
Emerging Markets	MSCI EM NR USD	-2.9%	-2.6%	14.0%	6.2%	4.5%
Bonds						
Taxable	BBgBarc US Agg Bond TR USD	0.8%	-1.5%	-0.4%	1.4%	2.0%
Tax Exempt	BBgBarc Municipal 5 Yr 4-6 TR USD	1.0%	0.0%	-0.4%	1.6%	1.7%
TIPS	BBgBarc US Treasury US TIPS TR USD	0.7%	-0.4%	0.7%	1.5%	0.9%
Real Assets						
Real Estate	MSCI US REIT NR USD	3.4%	-3.5%	0.0%	3.5%	5.6%
Commodities	Bloomberg Commodity TR USD	1.7%	3.6%	11.0%	-2.8%	-6.6%
Infrastructure	DJ Brookfld Global Infra TR USD	0.2%	-3.5%	0.1%	3.1%	7.0%
MLPs	Alerian MLP TR USD	5.3%	0.9%	-3.7%	-8.1%	-3.2%
Alternatives						
Hedge Funds	HFRI FOF Conservative USD	0.5%	1.0%	3.5%	1.8%	2.9%

HFRI FOF Conservative is through April — Source: Morningstar Direct

Deployment

Most of you know that I still serve in the US Air Force Reserve (although I am nearly at the end of my eligible age). As you read this, I'll will be serving on an Asian deployment. I am based in Okinawa as a Critical Care Air Team Transport physician, moving critically ill patients from Asia to the US. This will mean some delay in being able to respond to questions, etc. from you-but ask away. I'll answer/call when not flying/working. The deployment is for the month of July, so that I should be back in early August. Of course, both Rachel and Lauren are readily available for any time sensitive help you need during this time (Rachel@wealthcarellc.com, 321-505-7592/Lauren@wealthcarellc.com, 321-537-7502). If you are interested, the video here (at 4:20) talks about the CCATT mission https://www.youtube.com/watch?v=htiYVoZwLGE). Here's a video about the equipment we use in flight https://www.defense.gov/News/Special-Reports/Videos/?videoid=597681. Here's a video about the mission specifically at Kadena AFB (where I'll be based). https://www.dvidshub.net/video/525728/ccatt-rescue-w-slate

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Lauren and NAPFA

Lauren joins Rachel and Steve, being inducted into NAPFA-the national premier society of Fiduciary Fee Only Financial Planners! https://www.napfa.org/member/40454. Lauren is also pursuing the CIMA certification through the Investments and Wealth Institute and Yale University.

Investment Thoughts

What Percentage of Stocks Should You Have In Your Portfolio?

By LiveFreeMD blogger

At the most basic level, your investment portfolio consists of stocks and bonds. Yes, you can have real estate properties and alternative investments to help diversify your portfolio. You also need a storage of cash as an emergency fund. However, a traditional investment portfolio consists primarily of stocks and bonds.

Understanding Risk vs. Return

The percentage of stocks (vs. bonds) in your portfolio is probably the most important factor determining the long-term return (and risk) of your investment portfolio. As you increase the percentage of stocks in your portfolio, you increase the expected return, as well as the expected risk.

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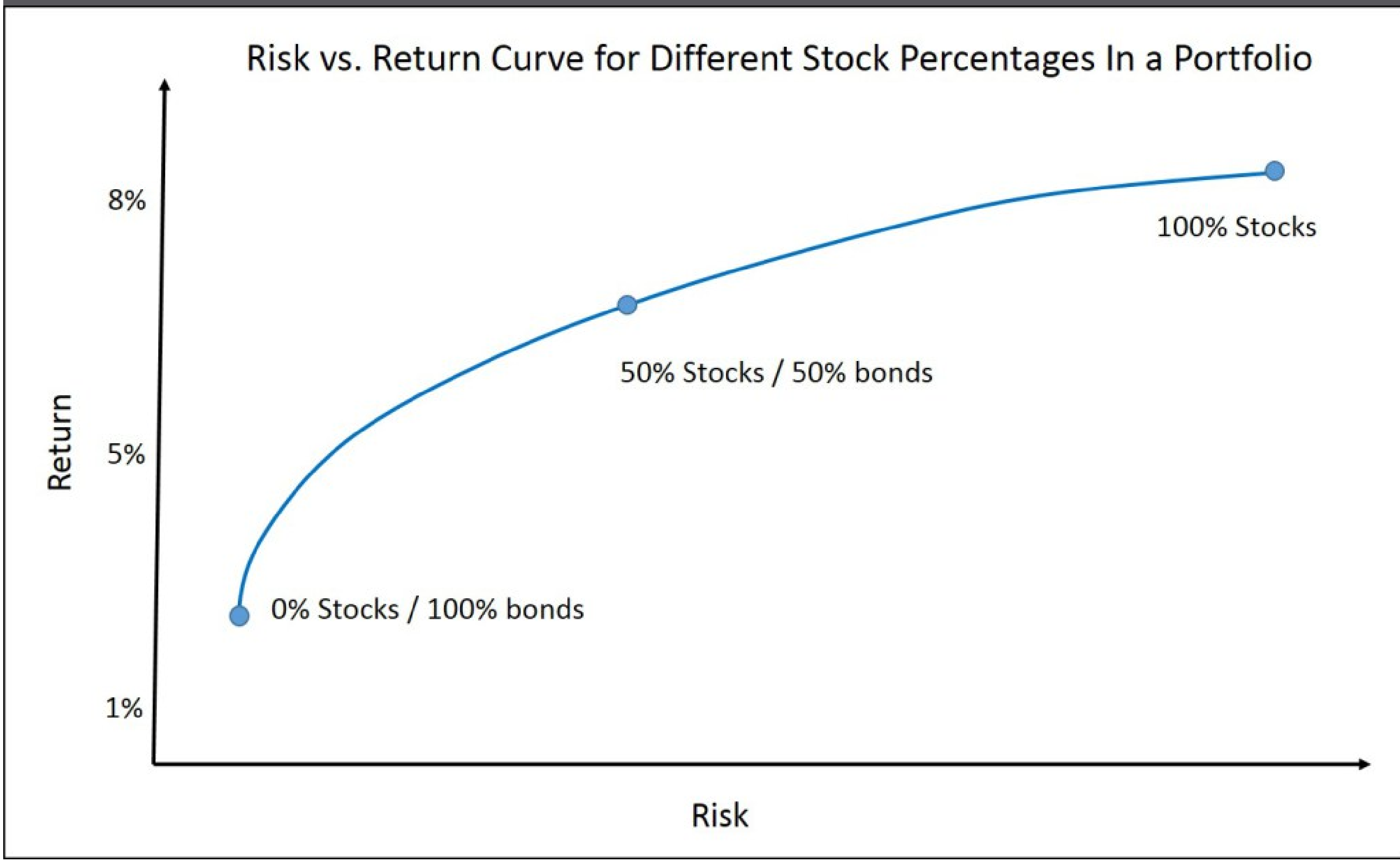

You can see in the curve above that a portfolio comprised entirely of bonds would have very little risk, but also a very low return. Conversely, a portfolio comprised entirely of stocks would have the highest expected return but also the highest degree of risk (loss of principal).

You need Some Stocks In Your Portfolio

It turns out that the curve may be slightly more complicated than the one I drew above. According to the "Efficient Frontier" theory, if you add some stocks to a 100% bond portfolio, you can increase your expected return and decrease your expected risk, as shown below. The inflection point occurs around 25% stocks and 75% bonds. Therefore, it may not be wise have less than 25% stocks in your portfolio.

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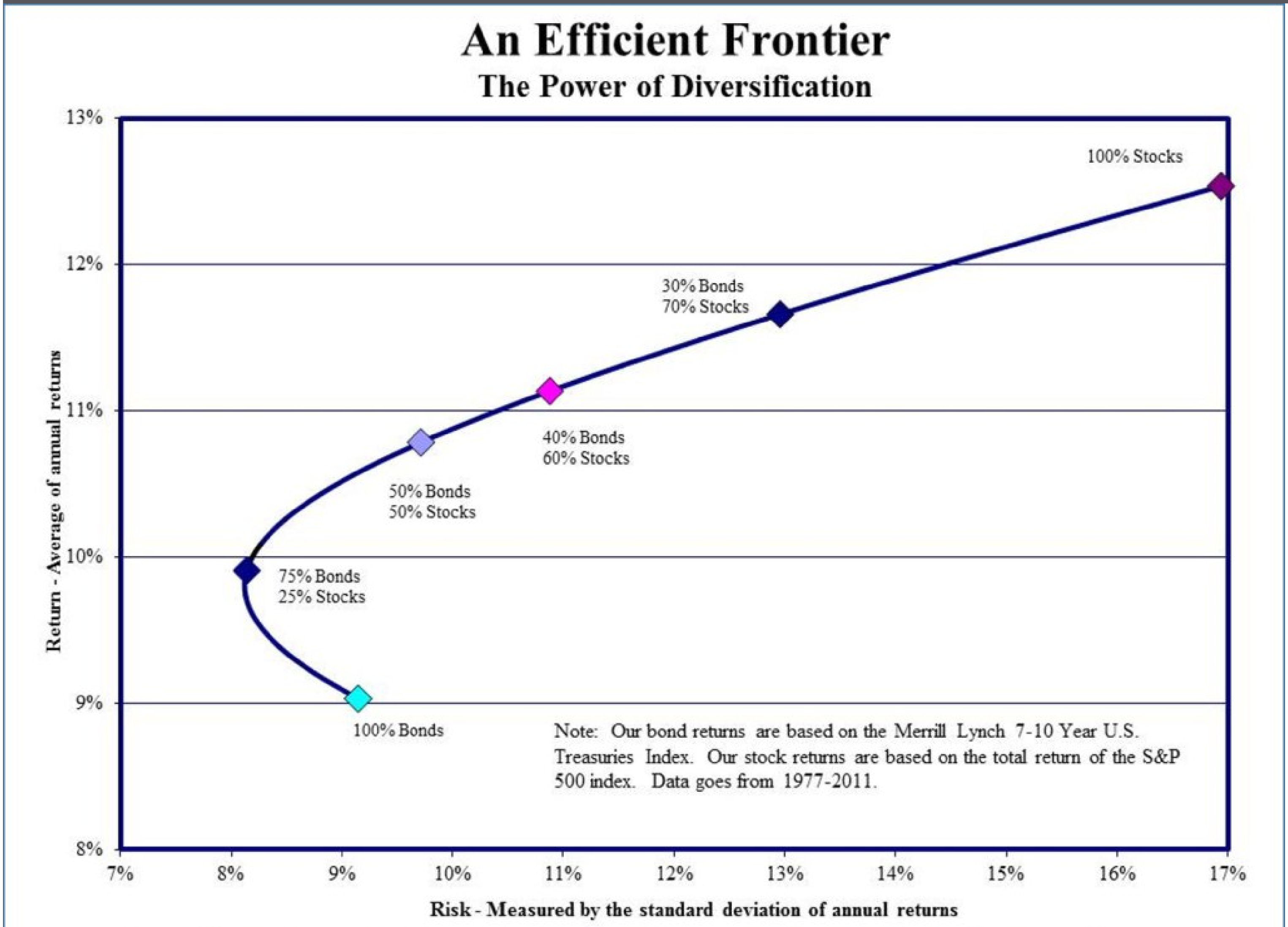

Source: http://in-housestaff.org/investment-primer-resident-physicians-low-cost-index-fund-investing-279

Historical Risk and Return of Various Percentages of Stocks vs. Bonds

It is important to understand the historical performance of various stock percentages. Past performance is no guarantee of future performance, and there is considerable controversy about the expected returns going forward, but it is still useful to look at the overall trends.

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Vanguard prepared an excellent graphic of the historical returns and risk of various stock vs. bond percentages (shown below). Notice that as the percentage of stocks increases, the average annual return increases, but with more volatility.

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a

100% bonds

Historical Risk/Return (1926–2016)	
Average annual return	5.4%
Best year (1982)	32.6%
Worst year (1969)	–8.1%
Years with a loss	14 of 91

20% stocks/ 80% bonds

Historical Risk/Return (1926–2016)	
Average annual return	6.6%
Best year (1982)	29.8%
Worst year (1931)	–10.1%
Years with a loss	12 of 91

30% stocks/ 70% bonds

Historical Risk/Return (1926–2016)	
Average annual return	7.2%
Best year (1982)	28.4%
Worst year (1931)	–14.2%
Years with a loss	14 of 91

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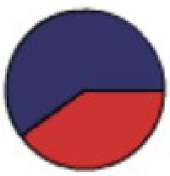
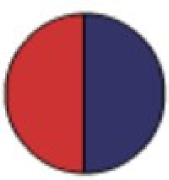
40% stocks / 60% bonds



Stocks	40.0%
Bonds	60.0%
Short-term reserves	0.0%

Historical Risk/Return (1926–2016)	
Average annual return	7.8%
Best year (1933)	27.9%
Worst year (1931)	–18.4%
Years with a loss	16 of 91

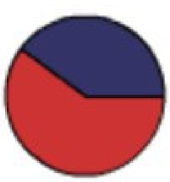
50% stocks / 50% bonds



Stocks	50.0%
Bonds	50.0%
Short-term reserves	0.0%

Historical Risk/Return (1926–2016)	
Average annual return	8.3%
Best year (1933)	32.3%
Worst year (1931)	–22.5%
Years with a loss	17 of 91

60% stocks / 40% bonds



Stocks	60.0%
Bonds	40.0%
Short-term reserves	0.0%

Historical Risk/Return (1926–2016)	
Average annual return	8.7%
Best year (1933)	36.7%
Worst year (1931)	–26.6%
Years with a loss	21 of 91

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Steve here on Stocks Vs. Bonds

Vanguard did some nice work on the charts above. The higher the percentage of stocks that you have as a percentage of your portfolio, the better your returns will be *over long periods of time.* Wealth Care LLC clients have heard this over and over.

I find it interesting that even Vanguard puts in a statistic for each portfolio as "years with a loss." I saw an otherwise decently written article using these charts equating any down year as being "risk."I think that considering "risk" and "loss" as the same thing is a terrible error. Take the last ten years as a fine example. Did we have a "loss" in 2007-9, or just volatility (downward). If you held your stocks for the last ten years without selling, you've done just fine. So, was the downward volatility in 2017-9 either a risk or a loss? It is crucial to know that you only have a loss if you sell-the price on your statements otherwise means nothing. If you have a long-term horizon and can wait out downward volatility, then any "risk" of "loss" is likely to be either markedly reduced or eliminated.

Miscellaneous

Employment

This chart from the Wall Street Journal is amazing. We have reached a period of "full" employment-in which there is a job for everyone not working. Of course, this isn't a perfect match-we have many skilled jobs without suitable applicants, and many unskilled workers that may have trouble finding regular jobs. But things are so much better than a few years ago!

Usually this tight of an employment market is a predictor of wage hike pressures and subsequent inflation-but we are not yet seeing that. We'll keep our eyes open.

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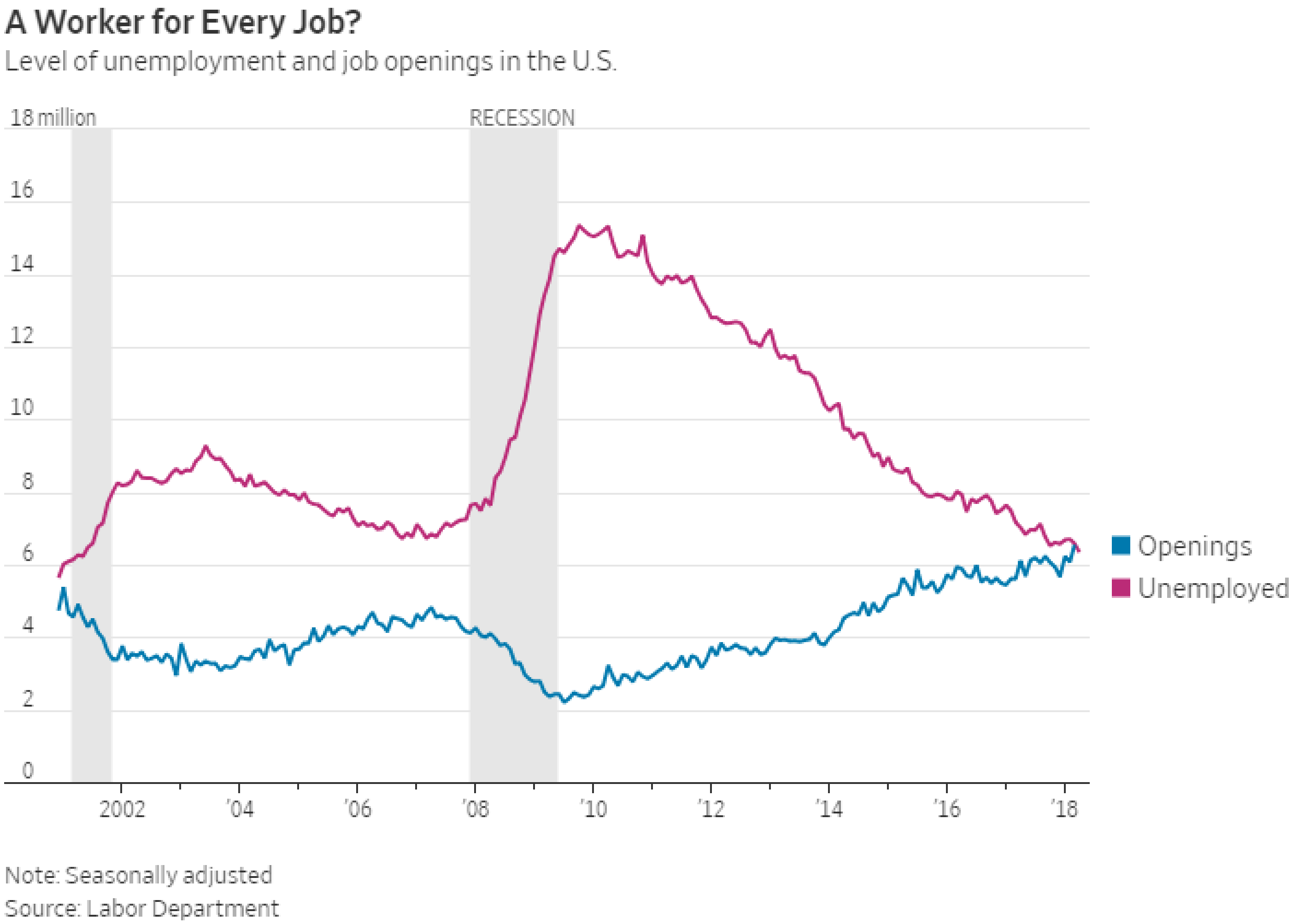

God Made a Dog

https://www.youtube.com/watch?v=9wWHLdHroyQ

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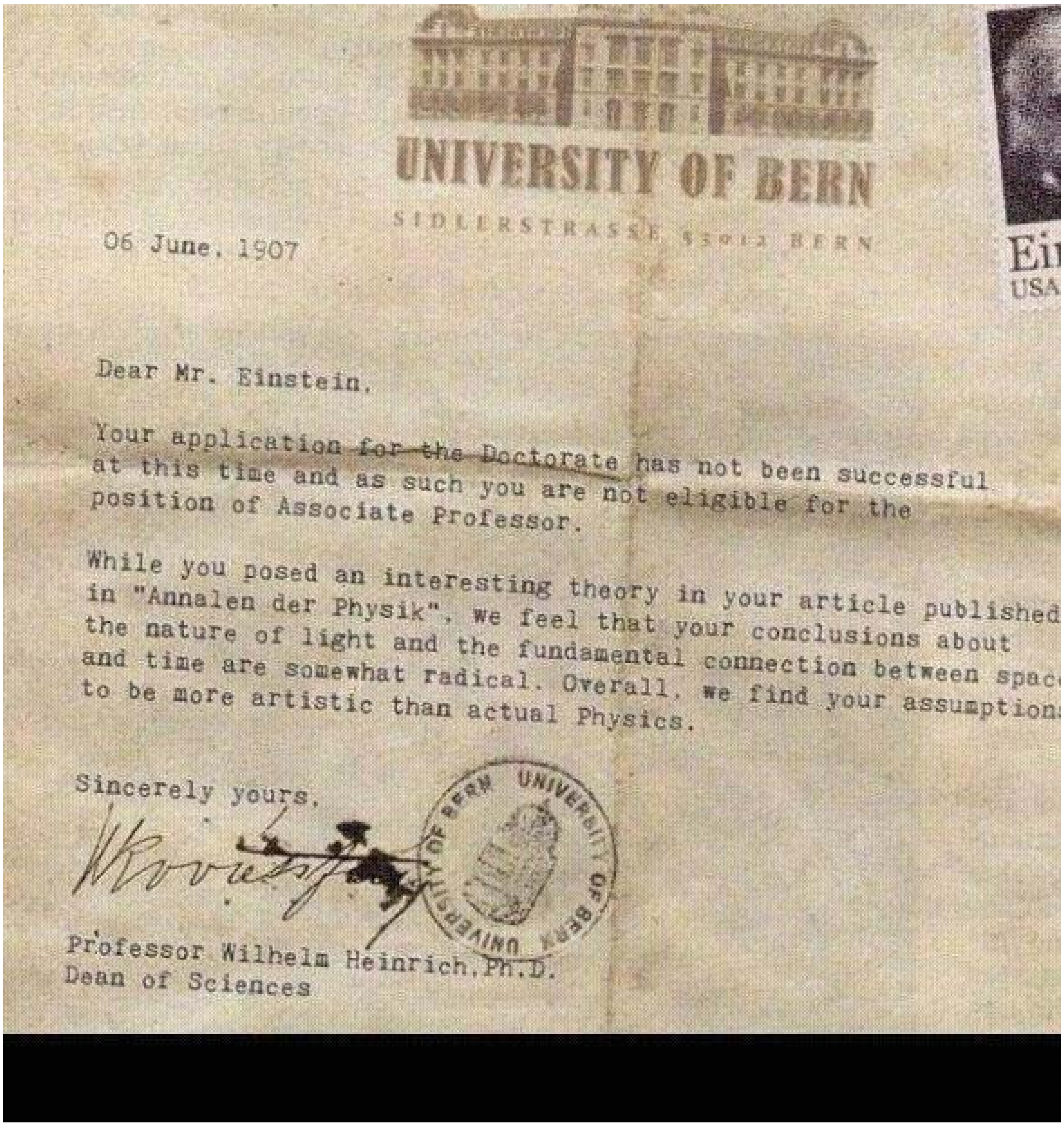
If You Ever Had a Rejection Letter, This Will Help



UNIVERSITY OF BERN

SIDLERSTRASSE 53012 BERN

06 June, 1907

Dear Mr. Einstein,

Your application ~~for the Doctorate~~ has not been successful at this time and as such you are not eligible for the position of Associate Professor.

While you posed an interesting theory in your article published in "Annalen der Physik", we feel that your conclusions about the nature of light and the fundamental connection between spac and time are somewhat radical. Overall, we find your assumption to be more artistic than actual Physics.

Sincerely yours,

UNIVERSITY OF BERN

Professor Wilhelm Heinrich, Ph.D.
Dean of Sciences

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Random Notes

Everybody’s a long-term investor when the market is going up.-Jonathan Clements

We can’t ensure success, but we can deserve it.-Joseph Addison

"Experience is what you got when you didn't get what you wanted" -Howard Marks

Jeff Bezos and Warren Buffett had been friends for awhile and, according to Bezos, one day they got to talking about Buffett’s strategy. “You are the second richest man in the world and yet you have the simplest investment thesis. How come others didn’t follow this?” the Amazon founder asked.

Buffett replies “because no one wants to get rich slowly.”

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"On Wall Street today, the stock market corrected its previous correction, and is pretty sure it's got it right this time."

Steven Podnos MD CFP® for Wealth Care LLC 7-1-2018

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