Wealth Care LLC January 2019 Commentary

Happy New Year!!

Investment Thoughts

One of our families wrote to ask me in mid-December: "What have you done to act on our losses this year?"

Wow, that's a great question with a long answer. Here goes:

First, we don't have losses until we sell something that has gone down in price. Until then, we just have "paper" changes.

We do however know some important facts about investing:

Stocks are volatile-they move up and down *unpredictably* in the short to intermediate term, but they move up over the long term (at least for the last hundred years). We also know that stocks are generally the only way to make real gains over taxes and inflation over the long term. Bonds and cash at best barely keep up with this steady erosion of wealth.

The word *unpredictably* used in the sentence above is vitally important. If we don't know what direction stock prices will move in the short to intermediate term, we cann*ot* predict which way prices go in the next few months (or even a year or two). So, there is also no way to understand what to do in *reaction* to either lower or higher prices in the short/intermediate term.

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2018 was a very unusual year in stock market history. Over 90 percent of all investable assets went down in price. Diversification doesn't work when this happens, and we haven't seen this in many years.

The main "benefit" of fixed income (bonds) investments is to provide a relatively non-volatile investment and one that usually goes up when stocks go down (but not this year).

Another abnormality in stock market performance is the marked difference in valuation between US stocks and foreign stocks. We've had better returns in US stocks in every year but one out of the last eight or so-again, very unusual. Usually this means that we are getting closer to a reversal in the trend and should expect foreign stocks to outperform US stocks. But remember, we don't know exactly when-just that it is probable.

This leads to the only behavior that is rational when prices of our investments go down. That behavior is to first be *patient*, fully expecting that our long-term investments (and we are only talking about long term investments-short term investments should be bank CDs with their guaranteed but low return) will average out to a gain that exceeds taxes and inflation and builds real wealth. It is also reasonable to "tilt" our portfolios towards any asset classes that are historically inexpensive (currently foreign stocks), but only to a small degree.

If price changes are at a historical extreme (two examples-stock prices getting cut in half in 2008-9, and stock prices exploding upwards in the late 1990s), then the proper behavior is to buy for lower prices and sell to some degree for "too high" prices. Hard to do, but the right thing. Other than at times of extreme price changes (and 2018 is quite normal in price variance), the correct but difficult behavior is to maintain a portfolio with perhaps a small tilt towards the cheapest asset classes. Any other behavior is harmful to our wealth-we can't time the market in and out without being whipsawed and losing as the market acts with its usual unpredictable volatility.

Understanding this and acting on it is perhaps one of our greatest values to our investors.

Always happy to discuss more!

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Looking at Calendar Years

It is almost universal to judge performance of investments based on a calendar year, but that is artificial. Market moves come in multiyear cycles not bound by January or December. Look at the table below that shows returns for both 2017 and almost all of 2018. If you look at just 2018, it is a "down" year. But if you add up gains and losses over both years for any market, the picture is different.

Global Equity Total Returns (As of 12/20/18)

Country	Index	2018 Return (In US $)	2017 Return (In US $)
Russia	MSCI Russia	1.1%	6.1%
Brazil	MSCI Brazil	-2.5%	24.5%
Israel	MSCI Israel	-3.5%	2.6%
Thailand	MSCI Thailand	-3.9%	34.9%
United States	MSCI USA	-6.1%	21.9%
India	MSCI India	-6.6%	38.8%
Norway	MSCI Norway	-6.8%	29.6%
Switzerland	MSCI Switzerland	-9.0%	23.6%
Taiwan	MSCI Taiwan	-9.1%	28.5%
Malaysia	MSCI Malaysia	-9.2%	25.1%
Indonesia	MSCI Indonesia	-9.3%	24.8%
Singapore	MSCI Singapore	-10.3%	35.6%
Poland	MSCI Poland	-11.4%	55.3%
Japan	MSCI Japan	-12.7%	24.4%
France	MSCI France	-12.7%	29.9%
Sweden	MSCI Sweden	-13.5%	21.8%
Australia	MSCI Australia	-13.5%	20.2%
Colombia	MSCI Colombia	-13.6%	16.3%
Denmark	MSCI Denmark	-14.2%	35.6%
United Kingdom	MSCI UK	-14.9%	22.4%
Spain	MSCI Spain	-15.5%	27.7%
Italy	MSCI Italy	-15.6%	29.6%
Mexico	MSCI Mexico	-15.8%	16.3%
Nigeria	MSCI Nigeria	-15.9%	37.6%
Canada	MSCI Canada	-16.7%	16.9%
China	MSCI China	-19.5%	54.3%
Chile	MSCI Chile	-19.6%	43.6%
Germany	MSCI Germany	-21.3%	28.5%
Belgium	MSCI Belgium	-25.1%	19.8%
Ireland	MSCI Ireland	-26.7%	18.5%
Austria	MSCI Austria	-27.0%	59.0%
Greece	MSCI Greece	-35.2%	29.1%
Turkey	MSCI Turkey	-40.2%	39.1%
Argentina	MSCI Argentina	-53.9%	73.6%

Pension Partners @CharlieBilello

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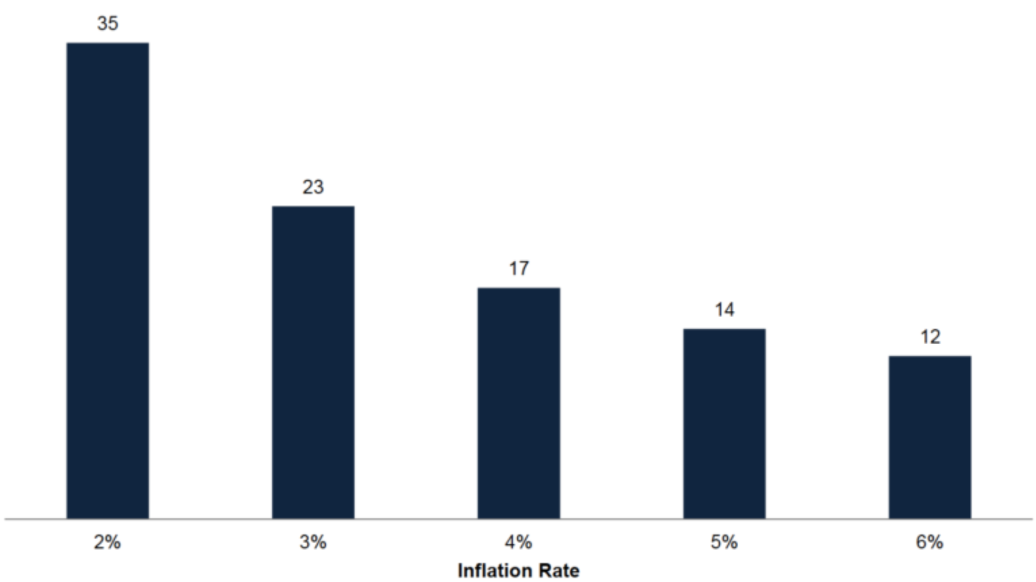
Why Stocks?

World stocks are the only asset class likely to have real gains after taxes and inflation. If you leave your cash in a box in the back yard, here is what happens to your purchasing power due to inflation alone. Historic inflation of 3% cuts your purchasing power in half in 23 years.

When Inflation Cuts Money in Half



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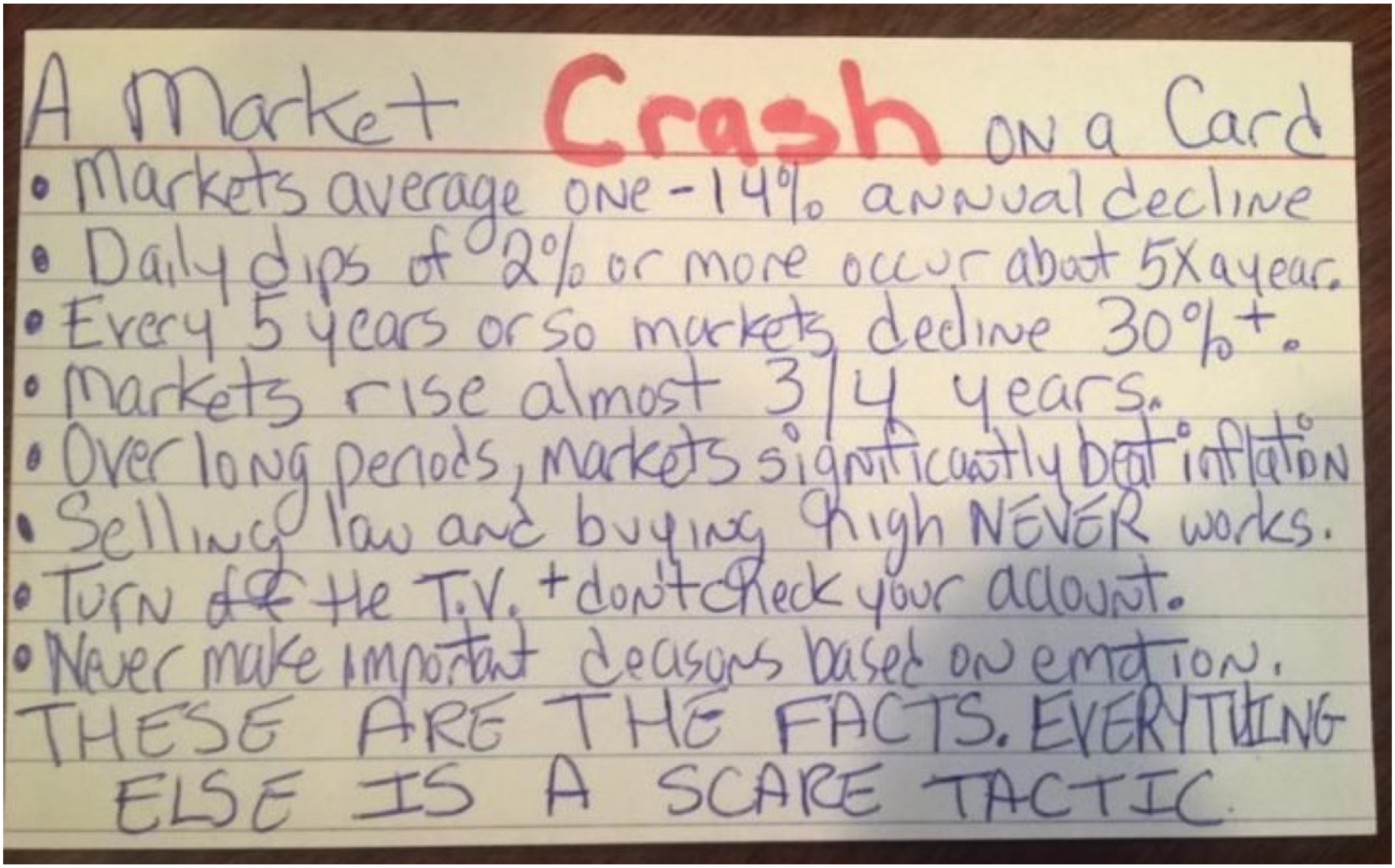
To Cut Out and Keep on the Frig:



-Anthony Isola

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What usually happens after a down market?

Blogger Ben Carlson compiled the following data:

S&P 500 Since 1926		Forward Performance		
Quarter Ending	**Quarterly Performance**	**One Year**	**Three Years**	**Five Years**
June 1932	-37.7%	162.9%	170.5%	344.8%
Sept 1931	-33.6%	-9.6%	13.1%	118.2%
Dec 1929	-27.8%	-24.9%	-60.9%	-40.7%
Sept 1974	-25.2%	38.1%	72.7%	117.5%
Dec 1987	-22.6%	16.8%	48.8%	109.0%
Dec 2008	-21.9%	26.5%	48.6%	128.2%
Dec 1937	-21.4%	31.1%	17.8%	25.4%
June 1962	-20.6%	31.2%	69.2%	94.8%
Mar 1938	-18.6%	35.2%	38.2%	84.5%
Sept 1946	-18.0%	6.4%	24.5%	115.4%
June 1970	-18.0%	41.9%	57.4%	56.3%
June 1930	-17.7%	-23.4%	-34.7%	-32.8%
Sept 2002	-17.3%	0.3%	27.0%	66.3%
Averages	**-23.1%**	**25.6%**	**37.9%**	**91.3%**

In a nutshell, five years after horrendous quarters, stoic investors are rewarded – and then some.

To the tune of a 91.3% return. This doesn't include any additional savings on your part.

These numbers, like everything else in the markets, aren't guaranteed. All investors can do is make high probability bets. This falls under that category.-Anthony Isola

Really, How Bad was the Year?

A nice rally in the US market at the end of the year tempered a mostly down market in most assets for the year:

Dow 30 index began the year at 24,824 ended at 23, 329 (down about 6%)
S&P 500 index began the year at 2695 ended at 2500 (down about 7.2%)
Nasdaq (tech) began the year at 7006 ended at 6635 (down about 5.2%)

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Foreign Developed Stocks (VEA as a proxy) began the year at 45.25 ended at 37.1 (down 18%)
Emerging Markets Stocks (VWO as a proxy) began the year at 46.7 ended at 38.1 (down 18.4%)
US Aggregate Bonds (AGG) began the year at 109.2 ended at 106.5 (down about 2.5%)

2018 was unusual in that there was no major asset class that did well. Foreign stocks started out cheap and became cheaper (they are really cheap now). US stocks gave back less than half of what we gained last year. As Wealth Care LLC portfolios use diversified index funds for investments, any particular family's portfolio was a sum of the percentage of asset classes performance as above.

Miscellaneous

Amazing:

1. NASA's Voyager 2 probe has entered interstellar space, becoming the second man-made object to reach the edge of the solar system, the U.S. space agency announced on Monday after a 41-year-long journey.
2. Voyager 2 is now more than 11 billion miles (18 billion kilometers) from Earth. Data sent by the spacecraft moves at the speed of light and takes about 16.5 hours to reach scientists back on Earth.
3. Its twin, Voyager 1, entered interstellar space in August 2012, but Voyager 2 carries a working instrument that will provide the first-ever observations from this gateway into interstellar space.
4. While the probes have left the heliosphere, they have not left the solar system, which extends until the outer edge of the Oort Cloud. It would take 30,000 years for Voyager 2 to leave the solar system.

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Your Phone is Listening

https://www.vice.com/en_uk/article/wjbzzy/your-phone-is-listening-and-its-not-paranoia

How to Configure Your iPhone to work for you

https://betterhumans.coach.me/how-to-set-up-your-iphone-for-productivity-focus-and-your-

Random Notes

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If investing were all about math, mathematicians would be rich. If it were all about history, historians would be rich. If it were all about economics, economists would be rich. If it were all about psychology, psychologists would be rich. In reality it's a mix of many disciplines, but some of the brightest people specialize in one topic and can't see the world through another lens.- Morgan Housel

If you find a path with no obstacles, it probably doesn't lead anywhere. — Frank A. Clark

> Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do. --Mark Twain

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