



Wealth Care LLC July 2022 Commentary

Investment Thoughts

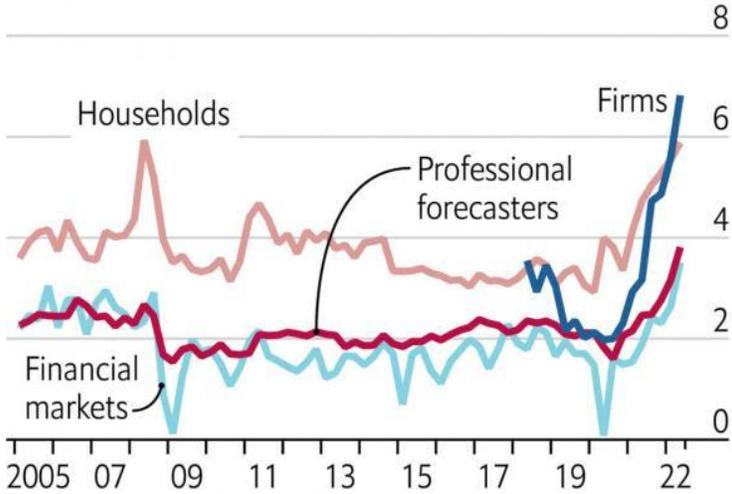
Inflation! Inflation! Inflation!

We've remarked before that the seemingly sudden appearance of significant inflation probably had at least a couple of causes. First, the money supply was greatly increased by government handouts and spending, along with the Federal Reserve making the act of borrowing money almost free. Second, we had an acute (and persisting) supply chain disruption followed by a marked increase in demand as we returned to a post pandemic life. At the same time, the labor supply shrank, such that there are seemingly endless jobs still open despite very low unemployment rates.

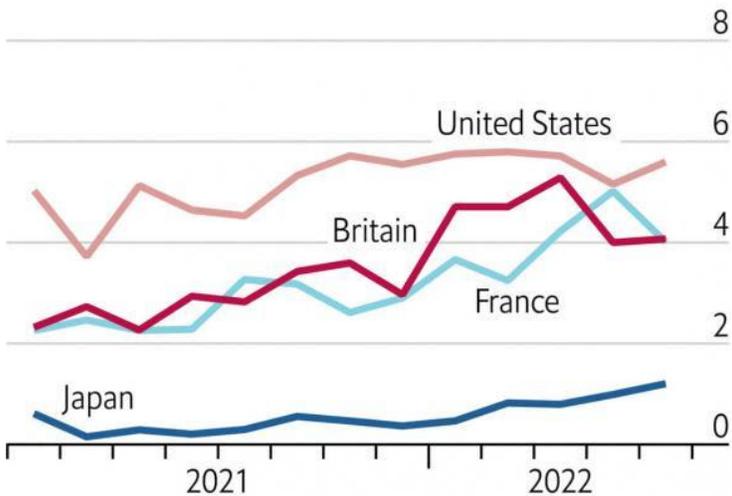


Fearing the worst

United States, inflation expectations over the next 12 months, %



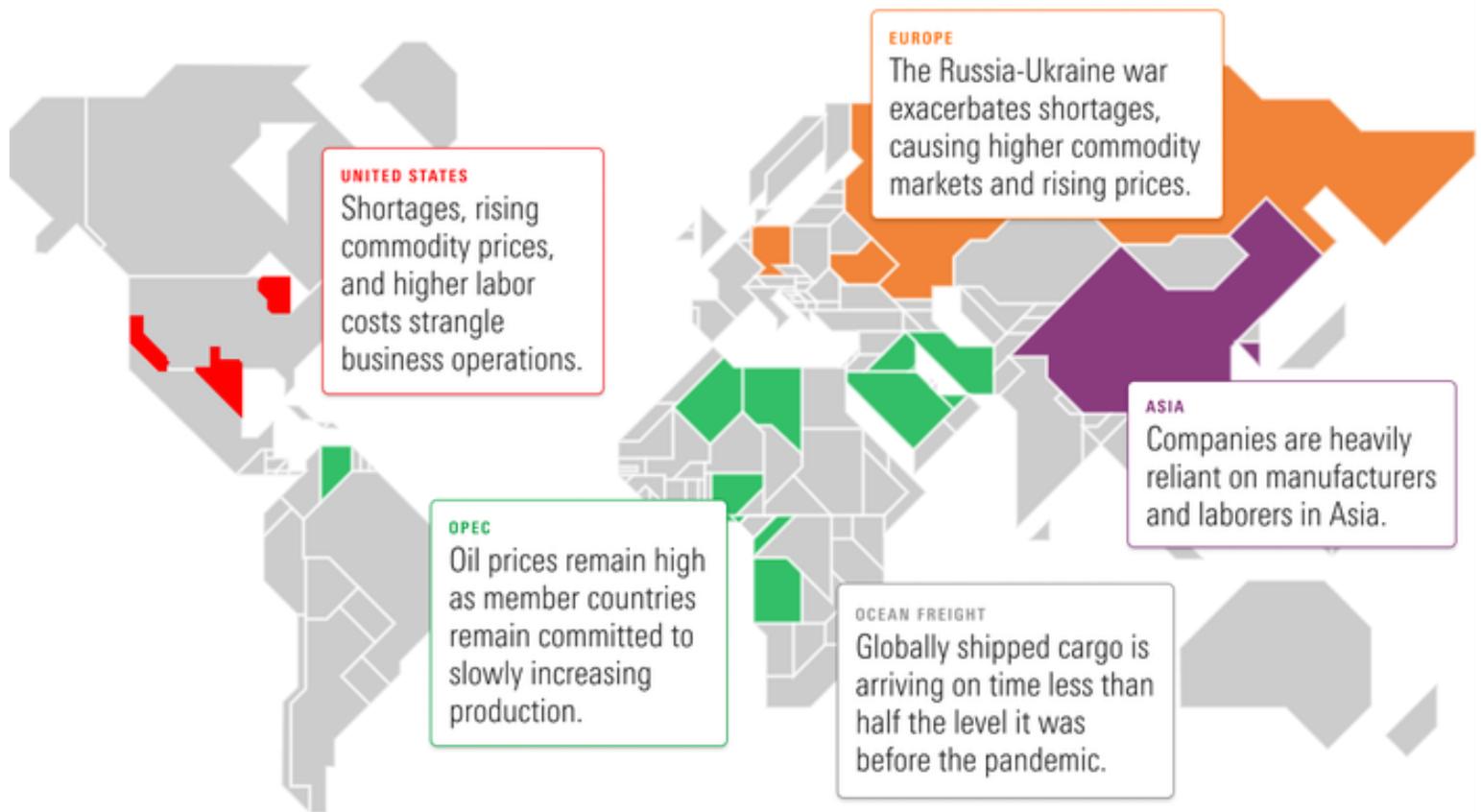
Consumers' inflation expectations over the next 12 months, %



Sources: NBER; Federal Reserve Bank of Cleveland; Morning Consult; Raphael Schoenle; Bernardo Candia; Olivier Coibion; Yuriy Gorodnichenko



Supply Chain Disruptions Across the World



Where is the market going next?

Given this information-where is the market going? We are always amused at the daily prognostications (by the hundreds it seems) of “where the market is going.” One can build the case at any time that disaster or opportunity looms and must be seized advantage of. It doesn’t matter when they are right or wrong in the short term, as there will be more predictions to follow. Take a minute to re-read the first page and a half of our 2021 commentary in August:

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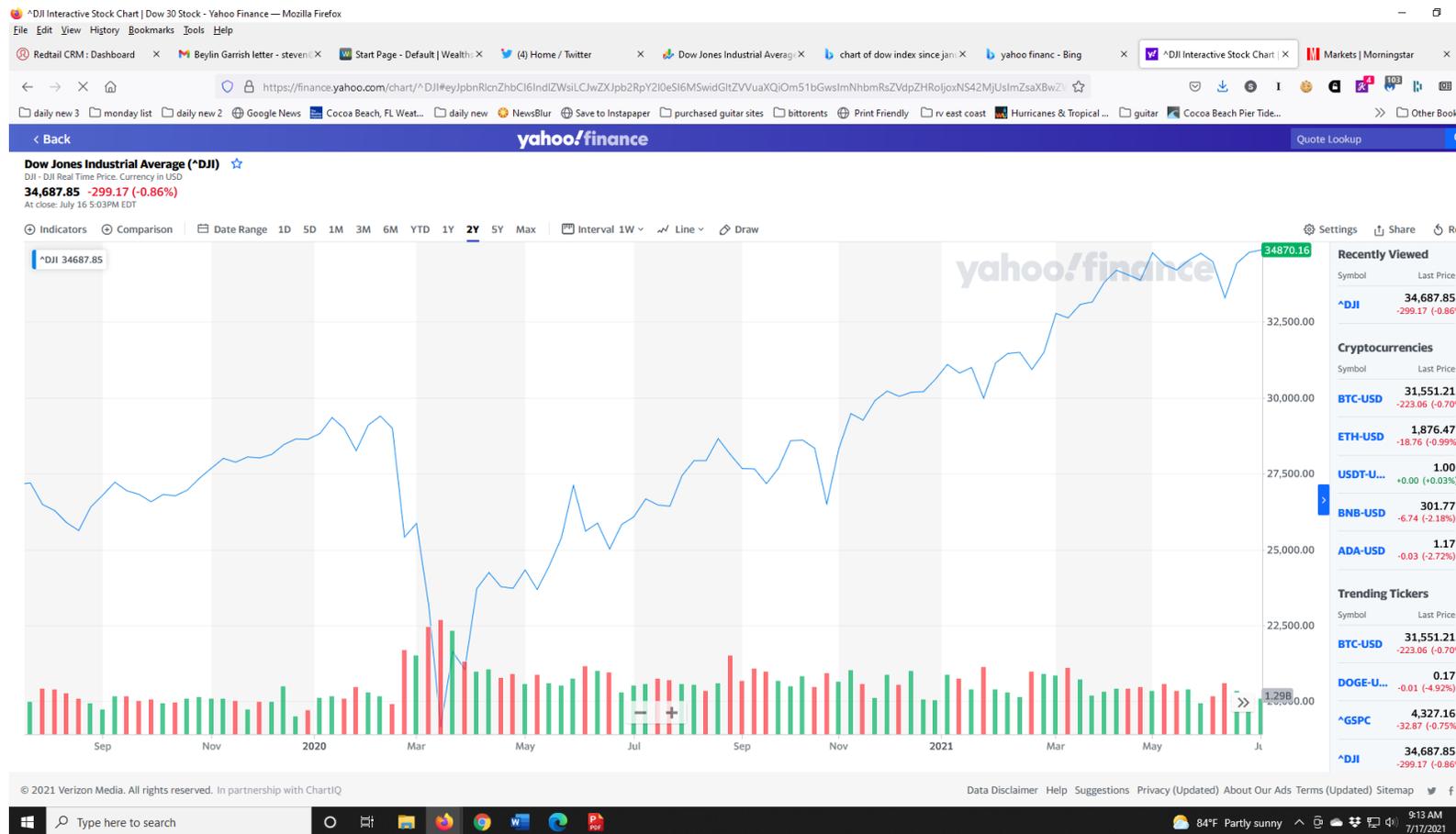
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Predicting the Markets

Look at this chart of the Dow 30 index since September 2019:



Now - imagine we can go back to January 2020, and I tell you that in two months we will have a global pandemic, the stock market will crash, and the economy will be shut down. Would you sell your stock holdings? (Most would).

Then what? When would you get back in? The markets had recovered within a few months, but nothing (pandemic wise) looked good at that time. The vaccine was just something that might occur, and the global situation looked worse by the week. My best guess is that most people that sold would have kept waiting for a "pullback" and missed out on the steady rise in prices that followed.

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So, the last two years is yet again another example of how we cannot time our market investments (even if we knew some of the future!). For our long-term plans, we must stay disciplined and diversified and invested.

We sent out the following chart a couple of weeks ago as another illustration of how trying to guess the market's direction just doesn't work.

INVESTMENT PORTFOLIOS ARE BUILT TO LAST

Some examples of reasons not to invest

Year	Event	Cumulative total return ¹
1999	Y2K	467.1%
2000	Tech wreck; bubble bursts	368.5%
2001	September 11	415.4%
2002	Dot-com bubble: market down -49%	484.9%
2003	War on Terror - U.S. invades Iraq	650.9%
2004	Boxing Day Tsunami kills 225,000+ in southeast Asia	483.5%
2005	Hurricane Katrina	426.2%
2006	Not a bad year, but Pluto demoted from planet status	401.6%
2007	Sub-prime blows up	333.2%
2008	Global Financial Crisis; bank failures	310.6%
2009	GFC: market down -56%; depths of despair	551.8%
2010	Flash crash; BP oil spill; QE1 ends	415.4%
2011	S&P downgrades U.S. debt; 50% write-down of Greek debt	347.9%
2012	2nd Greek bailout; existential threat to Euro	338.6%
2013	Taper Tantrum	278.1%
2014	Ebola epidemic; Russia annexes Crimea	185.6%
2015	Global deflation scare; China FX devaluation	151.2%
2016	Brexit vote; U.S. election	147.8%
2017	Fed rate hikes; North Korea tensions	121.3%
2018	Trade war; February inflation scare	81.7%
2019	Trade war, impeachment inquiry, global growth slowdown	90.0%
2020	COVID-19 pandemic, U.S. Presidential Election	44.5%
2021	Omicron variant, China regulatory crackdown, what's next?	22.0%

Source: J.P. Morgan Private Bank. FactSet. [1] Cumulative total returns for S&P 500 are calculated from December 31 of the year prior to January 31, 2022.



Of interest is this illustration of investor sentiment in the third week of June. Extremes of pessimism like this are often turning points (but we make no predictions)!



Best advice when you read or hear something “about the market.”:

Ignore it

Keep saving/invested for the long term

Live your life focusing on the things that you *can* control and that really matter

Stagflation?

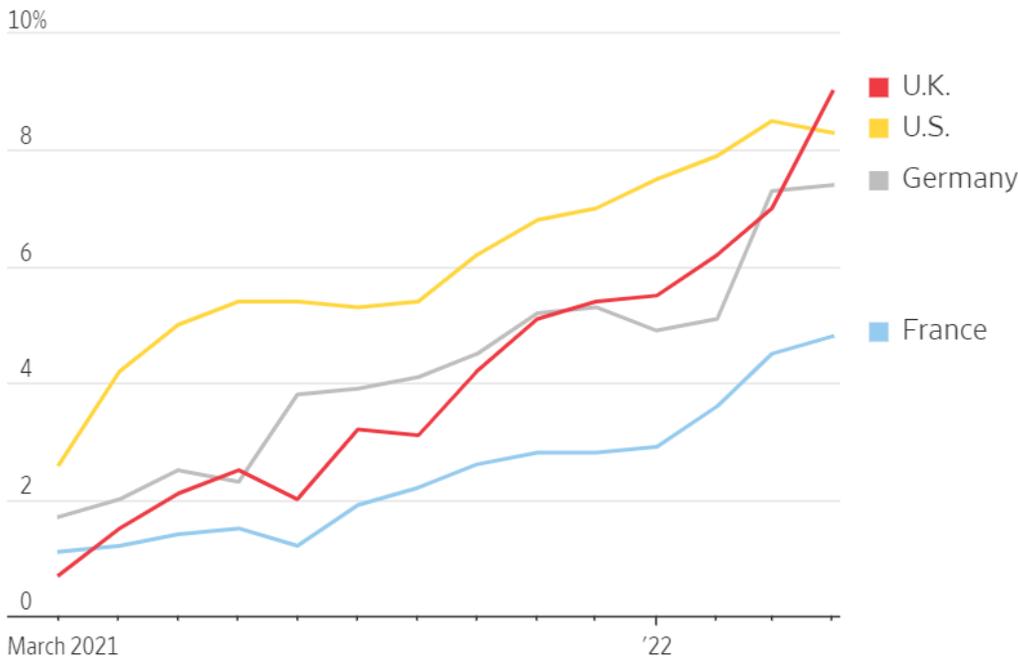


You will read about “stagflation” as it existed in the 1970s returning now. From Wikipedia: *In economics, stagflation or recession-inflation is a situation in which the inflation rate is high, the economic growth rate slows, and unemployment remains steadily high. It presents a dilemma for economic policy, since actions intended to lower inflation may exacerbate unemployment.*

So we might have inflation and a slowing economy, but not unemployment issues. We think we are seeing something new in the economy, not a return of something old. What is very uncertain is how long the current factors last and how strong they are.

With higher prices (including interest rates as a “price”), demand starts to decrease. Paying higher mortgage rates, utility rates, and more for fuel competes with spending on other things. We are starting to see some slowdown in demand for housing and automobiles in some markets and there may be more to come. Some would say that higher prices can solve some problems in this way. Expect to see more press about a coming recession-but understand that this information doesn’t help with predicting stock prices.

Consumer prices, change from a year earlier



Sources: Organization for Economic Cooperation and Development; Office for National Statistics (U.K.)



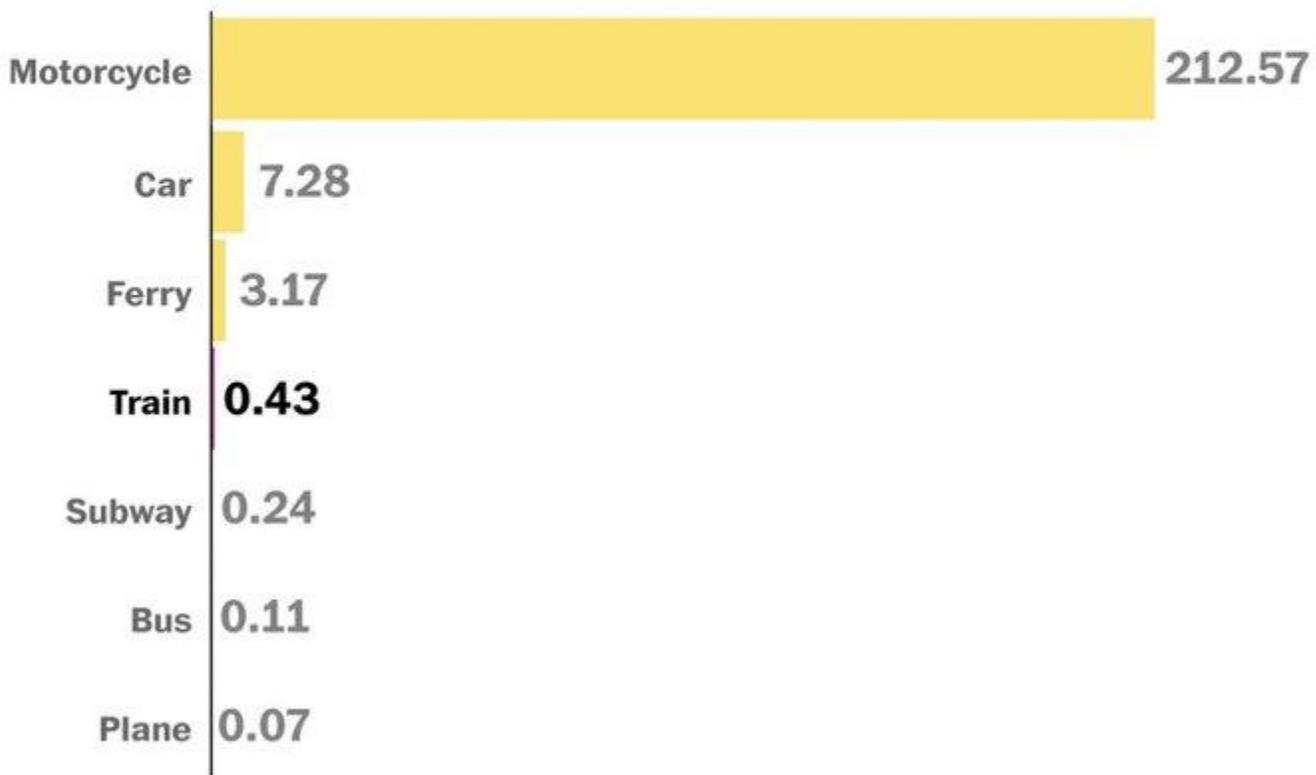
Also of interest/concern is the now strong correlation of stocks and bonds-both going down. For the last forty years, an investor could depend on bonds being stable or moving up in price when stocks did poorly. Bonds were looked at as a source of stable value. But with increasing interest rates, bonds have become losers also. It is possible that the rise in interest rates will subside if the economy does poorly, but we don't know.

Miscellaneous



Motorcycles are the deadliest.

Passenger deaths per 1 billion passenger miles, 2000 to 2009



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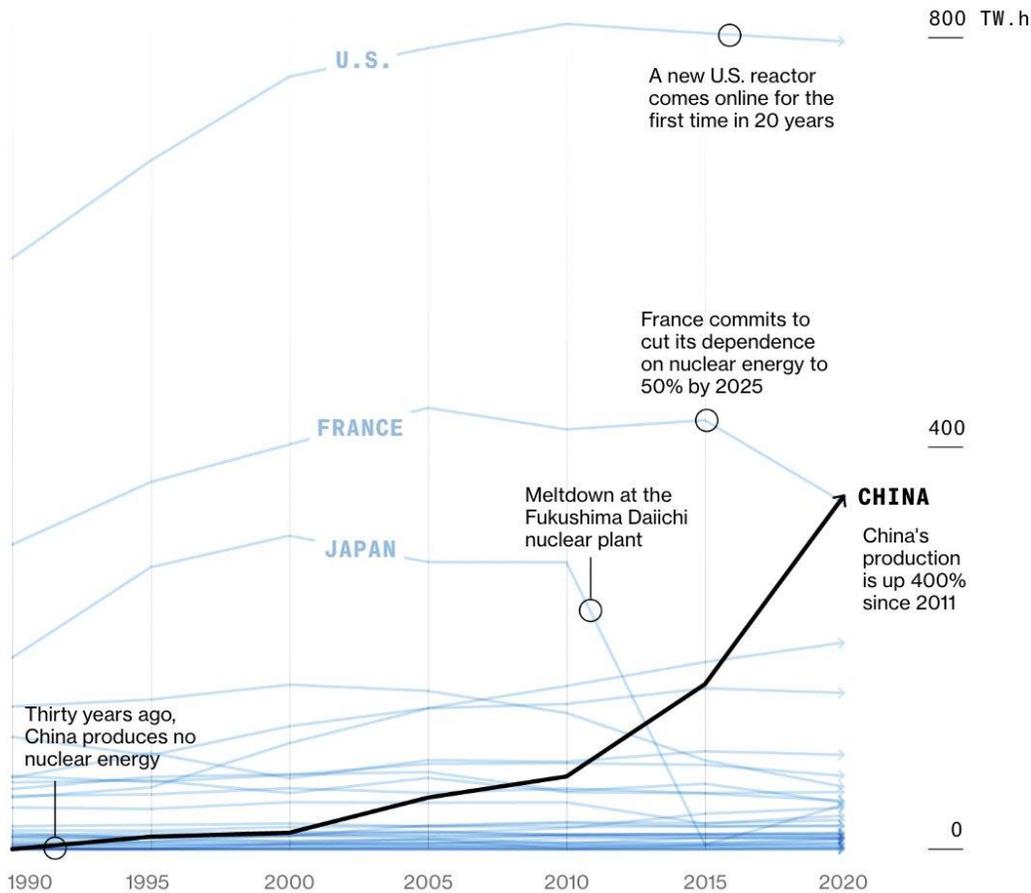
Source: Ian Savage, Northwestern University

Nucs?



China's Catching Up

In contrast, the U.S., France and Japan have reduced interest in nuclear power



Source: International Atomic Energy Agency (IAEA)

Without further comment, we now have “green” missiles:



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...

Few people realize the RIM-7 Sea Sparrow is the most environmentally friendly anti-aircraft missile produced anywhere.

We're proud of our commitment to a better future for all the children of the world. Do good things. Be greener. With Raytheon

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125 Retweets 31 Quote Tweets 1.3K Likes

Random Notes

On your deathbed, you would do anything, pay anything for one more ordinary evening. For one more car ride to school with your children. For one more juicy peach. For one more hour on a park bench. Yet here you are, experiencing any number of those things, and rushing through it. Or brushing it off. Or complaining about it because it's hot or there is traffic or because of some alert that just popped up on your phone. Or planning some special thing in the future as if that's what will make you happy. You can't add more at the end of your life...but you can not waste what's in front of you right now. -Ryan Holiday

Anything you say before the word "but" does not count.-Kevin Kelly

Being nice to people is the easiest career competitive advantage.-Morgan Housel

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The Wealth Care LLC Team July 1, 2022

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