



## Wealth Care LLC March 2020 Commentary

### Investment Thoughts

#### Why Own Bonds?

There are at least three reasons to have bonds/fixed income in one's portfolio. The first may be to have a diversified portfolio to smooth out volatility. As bonds often rise in price when stock prices drop (but certainly not always), they reduce the drop in value when stocks temporarily drop in price. This was certainly the case in 2008-9. In addition, "rebalancing" one's portfolio between stocks and bonds when one of these two asset classes gets out of an asset allocation range usually removes some risk from the portfolio (while also reducing return most of the time). A second reason to own bonds might be just for a return-if bonds are producing an interest rate greater than inflation and taxes, they might be held for that real return and portfolio growth. Finally, bonds can be owned as a stable source of funds for required distributions. We use bonds for this reason in retirement portfolios that have money coming out regularly. We want several years of expected distributions in a stable safe investment not exposed to either interest rate risk or stock market volatility risk (so, high quality short term bonds).

#### What Will Bond Investments Return?

The return of bond investments has historically been related to what their starting yield is. The chart below shows a tight correlation between the yield of the bond at the beginning of each decade since 1970 and the subsequent annual returns per year. We are starting out the new decade with a 5 year bond yield of around 1.5%-suggesting very low returns moving forward.



## 5 Year Treasuries by Decade

Decade	Starting Yield	Annual Returns
1970s	8.0%	7.0%
1980s	10.4%	11.9%
1990s	7.8%	7.2%
2000s	6.2%	6.2%
2010s	2.3%	3.2%

Table: Ben Carlson • SOURCE: DFA

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Given this probably low future return, we only “like” bonds for reason three above (stable value for distributions). However, we also know that many of you would not like a total exposure to stock market only type portfolios, so we own some bonds for reason one also.

### Retirement Plan Contribution limits are increasing in 2020

Maximum employee elective deferral	<b>\$19,500</b>	\$19,000	+\$500
Employee catch-up contribution (if age 50 or older by year-end) <sup>1</sup>	<b>\$6,500</b>	\$6,000	+\$500
Defined contribution maximum limit, all sources (employee + employer) <sup>2</sup>	<b>\$57,000</b>	\$56,000	+\$1,000
Defined contribution maximum limit (if age 50 or older by year end); maximum contribution all sources plus catch-up	<b>\$63,500</b>	\$62,000	+\$1,500

### Miscellaneous

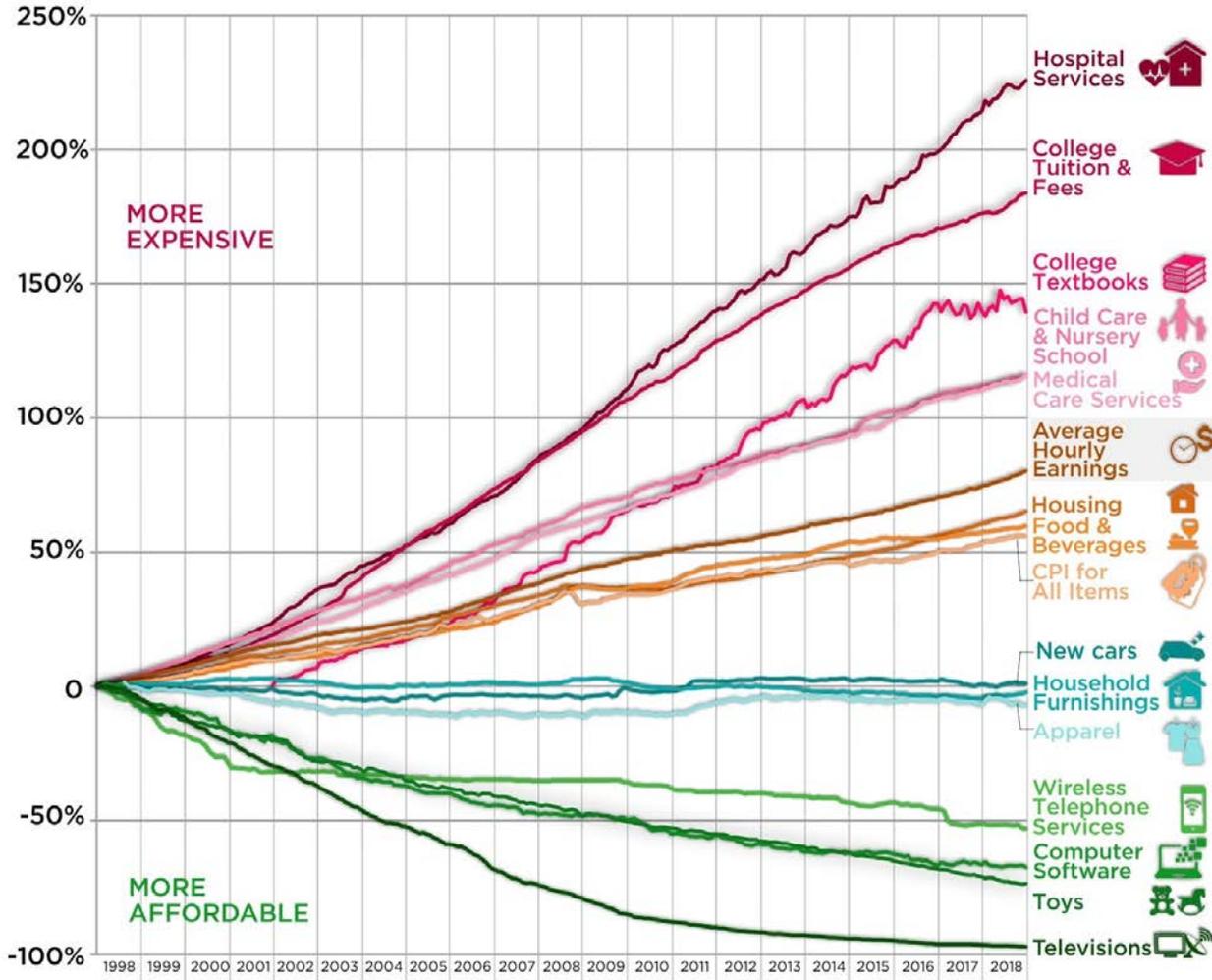


## The Rate of Inflation Depends on What You Are Buying

It is hard to agree on what the real rate of inflation is, because it depends on what you spend most of your money on. Looking at the graph below, going to college or being sick has a very high rate of inflation over the last twenty years.

## 20 Years of Price Changes in The United States

Selected Consumer Goods & Services, Wages (January 1998 to December 2018)



Article & Sources:  
<https://howmuch.net/articles/price-changes-in-usa-in-past-20-years>  
 CPI and other price indices - Bureau of Labor Statistics - <https://data.bls.gov/PDQWeb/cu>  
 Average hourly earnings - Bureau of Labor Statistics - <https://data.bls.gov/timeseries/CE50500000008>

howmuch.net

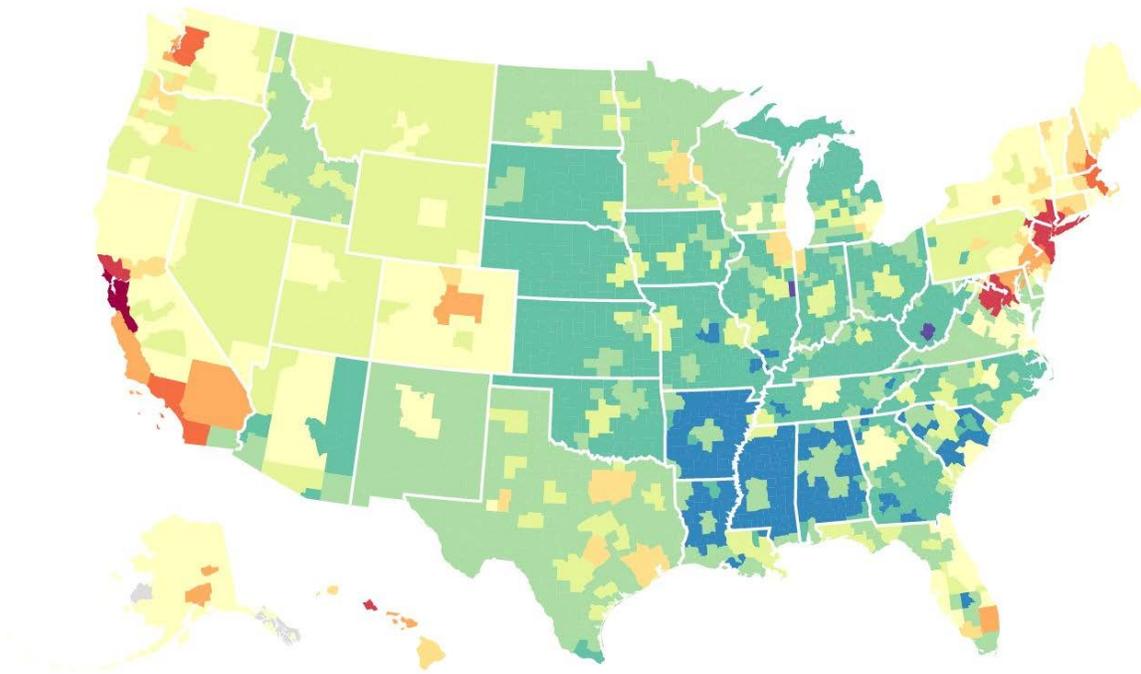


## Geographic Arbitrage

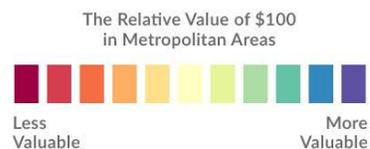
Where you live can have a tremendous impact on your ability to accumulate wealth. Often, more expensive places to live also come with higher salaries for the same work, but not usually “enough” to overcome the higher cost of living.

### The Relative Value of \$100

What is the Real Value of \$100 in Your Metro Area?



Notes: This map shows real purchasing power (RPP) at the county level. Data for individual metropolitan areas is applied to all counties comprising the metropolitan area. For all counties without a specific metropolitan area designation, the state's nonmetropolitan average is applied. RPP values were converted into dollar equivalents to express the purchasing power of \$100 compared to the national average. Data is from 2017.  
Source: Bureau of Economic Analysis, *Regional Price Parities*.





## Random Notes

Phrases that move conversations from less valuable to more valuable:

"I think you're probably right. Tell me more."

"I'm sorry. I appreciate you pointing that out. I didn't see it before."

"Where do we go from here? What's the next step?"

"How can I help?" -Shane Parrish

There's an old joke about a mugger who points a gun at a man and asks, "Your money or your life?" The man pauses and then answers, "My life. I'm saving my money for my old age."

Coronavirus Perspective:

In the last two winters there were 80 million cases of flu in the U.S, with 37.5 million clinic visits and 1.3 million hospitalizations, resulting in an estimated 95,000 U.S. deaths.

