Wealth Care LLC January 2020 Commentary

Happy New Year!!!!

It has been a good year from a financial/markets viewpoint-the economy is strong, unemployment is historically low, inflation is tame and the markets (all of them) had a great recovery from 2018's price declines. US stock markets led the pack again, but overseas markets all had a nice double digit return as well and remain more favorably valued.

Thank You!

As we enter the new year, we are so very appreciative of the Wealth Care LLC family. In the last six years, we have:

Grown from 80 to 160 families that we work for
Grown from 200 million to almost 400 million dollars that we manage
Grown from one staff to four
Been listed by Forbes as one of the "best advisors" in Florida

We could not have done this without you-so Thank You!

The Absence of Greed

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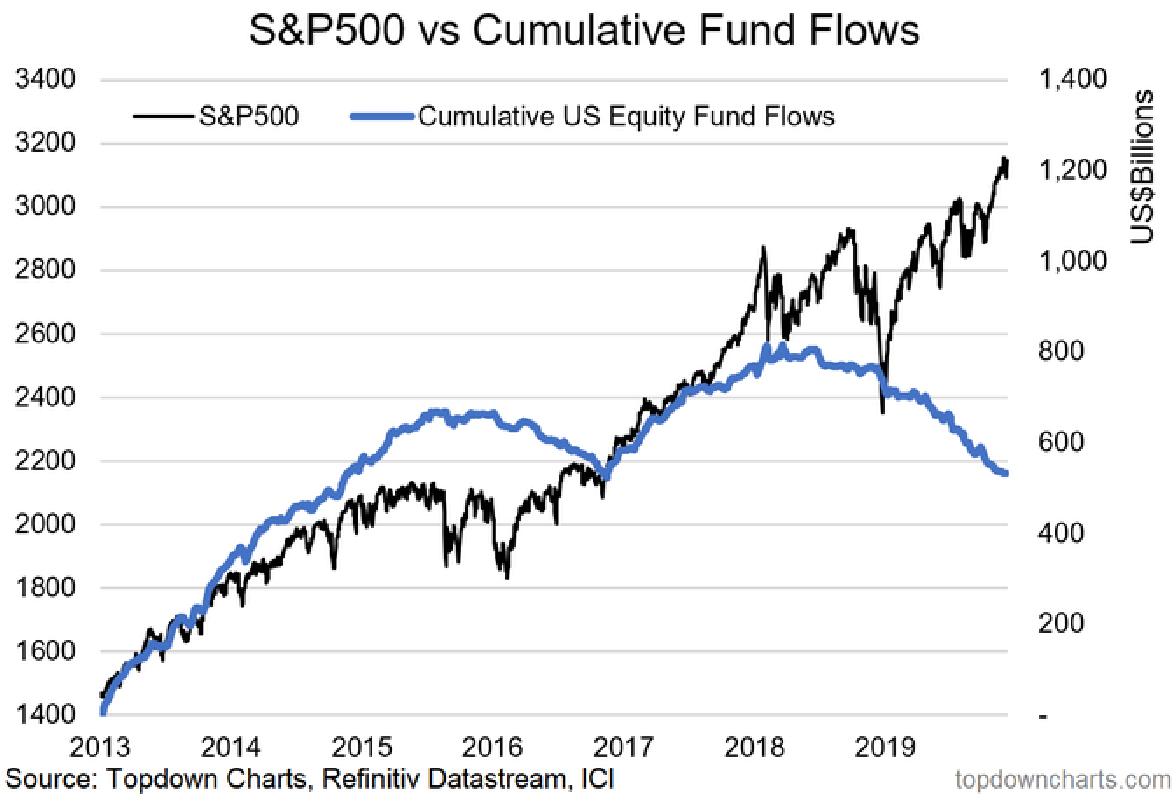

The chart above warms the heart of good investors. It shows that people are pulling money out of broad US market funds while prices rise. The flow out suggests a lack of greed, and in fact some pessimism and worry about future prices. This markedly increases the chances that the market will continue to do well. The time to worry is when money is flowing *into* stocks (think 1999 or real estate in 2005-7).

Why Invest in Stocks?

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$10,000 invested in the S&P 500 in the year...

...2010 would be worth $32,100 by August 2019.

...2000 would be worth $29,181 by August 2019.

...1990 would be worth $155,468 by August 2019.

...1980 would be worth $783,050 by August 2019.

...1970 would be worth $1,384,183 by August 2019.

...1960 would be worth $2,936,957 by August 2019.

Fixed income and cash yields are low-and until they improve, we are limited to global stocks in order to keep up with inflation and taxes. Look at the chart below as an illustration of how inflation erodes the purchasing power of our savings. Even a 3% inflation rate cuts the value of our investment dollars by ½ in 24 years. If you are 40 years old, a dollar saved today will buy 50 cents of "stuff" as you enter retirement. You will need to more than double that dollar to keep up with inflation and taxes (i.e. to keep the same purchasing power). My home would sell for perhaps 50% more than I paid for it 30 years ago-but as you can see from the chart (use 3% inflation), the dollars I'd get today will buy less than they would at the start of the thirty years I've owned the house-a negative return (but an enjoyable house). Global stocks usually provide a single digit return above taxes and inflation.
Approximate time needed to destroy half the purchasing power of USD at various rates of inflation:

1% - 70 years
2% - 35 years
3% - 24 years
4% - 18 years
5% - 14 years
6% - 12 years

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7% - 10 years
8% - 9 years
9% - 8 years
10% - 7 years
15% - 5 years
25% - 3 years
50% - < 2 yrs

Active Vs Passive Investing

Fidelity recently did an in-depth review of outcomes using actively managed (managers that pick stocks or bonds out of their respective index classes) vs passive (computer chosen buying of most or all securities in a given index) investing over the last few years. They chose funds that had lower expenses and generally better performance as assessed by Morningstar. They found that if investing in large US stocks, you were usually better off choosing passive funds, but they found equal or better outcomes with many asset classes when choosing active funds.

At Wealth Care LLC, we believe that any actively managed fund we use must have reasonable expenses as well as an excellent track record of "beating" their index. Two funds that have done this relentlessly are FEMKX (Fidelity emerging markets) and PIMIX (Pimco Income fund)-both of these are in most of our portfolios.

SECURE Act

This bill signed in December changes several aspects of retirement plans and IRAs.
Here are some of the greater impacts for you:

You can now put off taking required distributions from IRAs and retirement plans until age 72

You can contribute to a traditional IRA at any age (previously limited to no contributions after age 70 ½). Either you or your spouse must have earned income equal to your combined contributions as is the law currently.

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Inherited IRAs will no longer be allowed to "stretch" distributions over your children's lifetimes, but instead must be distributed out and taxed within ten years. It is not required that they take out distributions each year, but that at the end of ten years all the money is out and taxed. This does not apply to spouses inheriting IRAs and does not affect stretch IRAs already in existence. Some estate planning documents for IRAs left to trusts may need modification in language to adapt to this new law. The net effect for most heirs will be increased taxes due as the IRA money must come out much faster.

Roth IRAs are also subject to this new ten year rule. This is a good example of the government changing the rules abruptly. For years they told people to pay tax on Roth conversions so that their heirs could take lifetime distributions without taxation. Now, heirs will need to take the money out of the Roth (but without taxes) within ten years, but now the income earned on those assets after they come out of the Roth IRA will be taxable.

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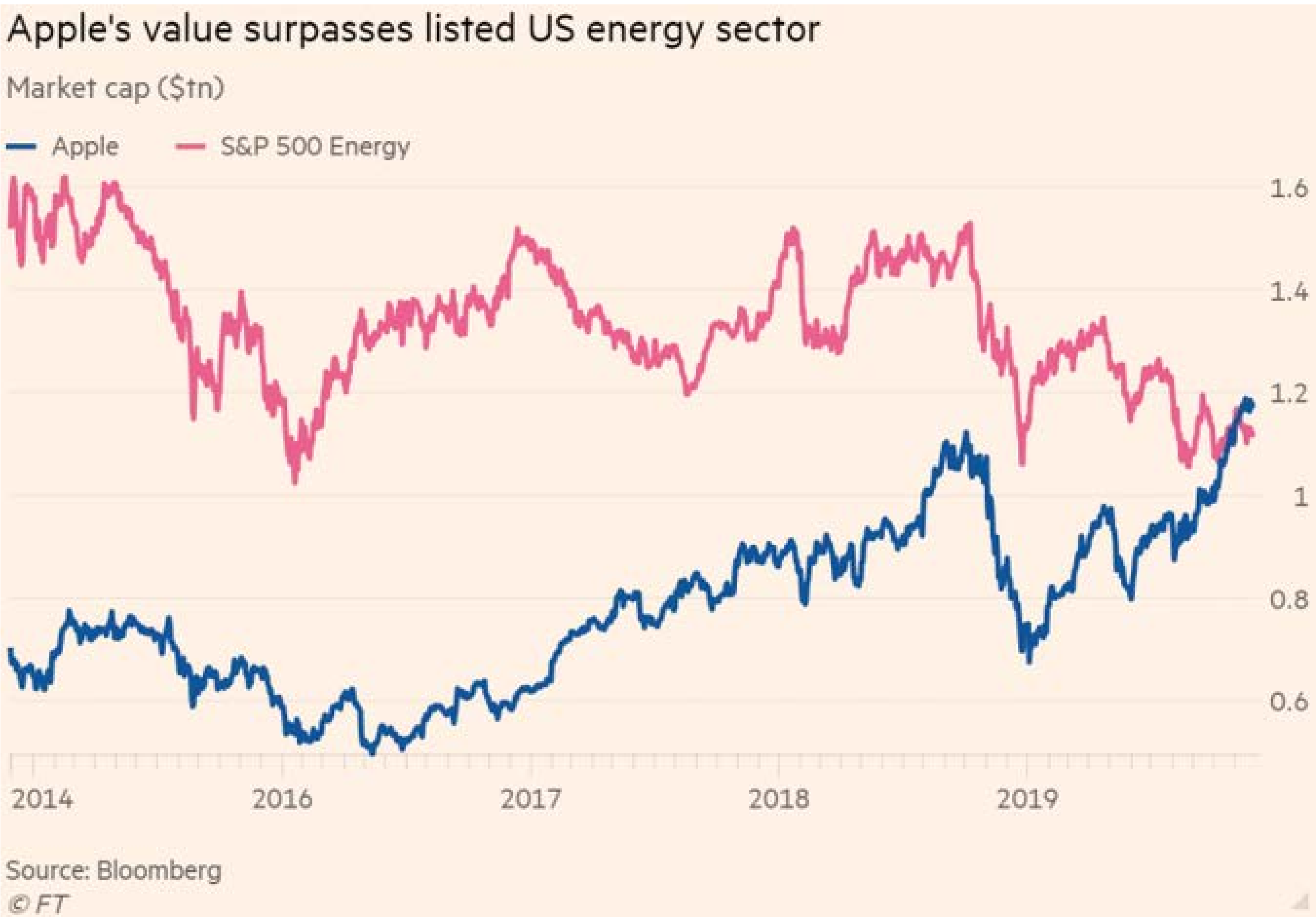
A Sign of Overvaluation?



This chart is astounding. It indicates the the market capitalization (how much all the shares of Apple stock would be worth all together) of Apple exceeds the market capitalization of all of our energy

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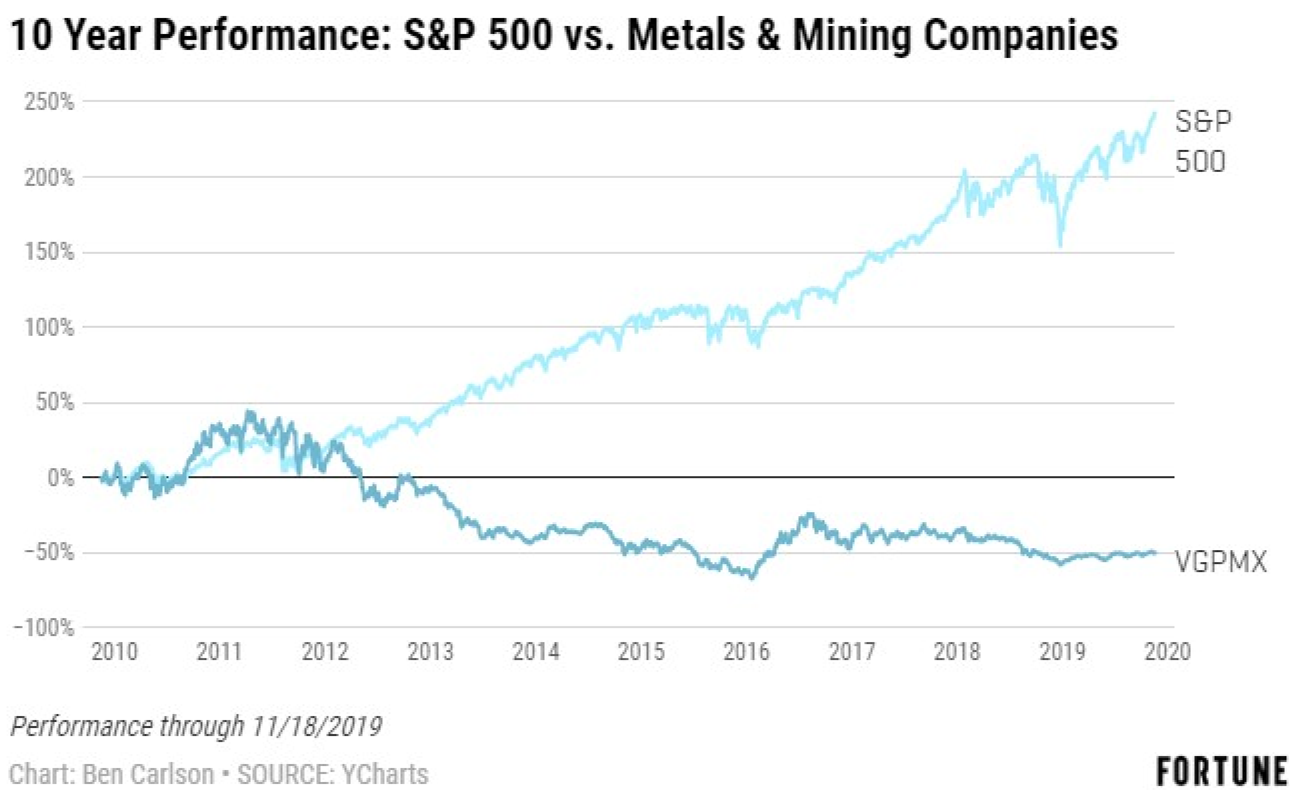
companies and their assets combined. Something is out of kilter here-either Apple is over valued or Energy is undervalued (in my strong opinion).

Here's another anamoly ?

In the last ten years, the value of all of our metals and mining companies (and their mines) are worth half of what they were. At the same time, intangible stocks have more than doubled in price.



Beneficiary Update Reminder:

We'd like to remind you that your retirement accounts and life insurance policies pass at your death according to the beneficiary designations listed on the accounts/policies. Beneficiary designations on life insurance policies and retirement accounts do not automatically update when you make changes to your estate plan documents. You will need to separately update the beneficiary

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designation on each retirement plan account and life insurance policy after updating your estate plan. We can help you update beneficiaries on accounts we manage.

MISCELLANEOUS

Ten years ago, the U.S. ranked third in global oil production, trailing Saudi Arabia and Russia. A decade later, it leads the world in oil as well as natural-gas output, having more than doubled the amount of crude it pumps while raising gas production by roughly two-thirds, according to federal data. There is a simple reason for the surge: fracking. Horizontal drilling and hydraulic fracturing techniques spurred a historic U.S. production boom during the decade that has driven down consumer prices, buoyed the national economy and reshaped geopolitics. (*via The Wall Street Journal*)

New Years Advice for Your Adult Children

We often make New Year's resolutions-and one worth making might be to get your adult children financially sound! As in prior years, both Lauren and Rachel are available to talk with your adult children about any financial questions they might have. Members of the Wealth Care LLC family may give their adult children Lauren and Rachel's email addresses (at bottom of page) to contact them directly. You are also always welcome to share our commentaries and other emails with them.

Random Notes

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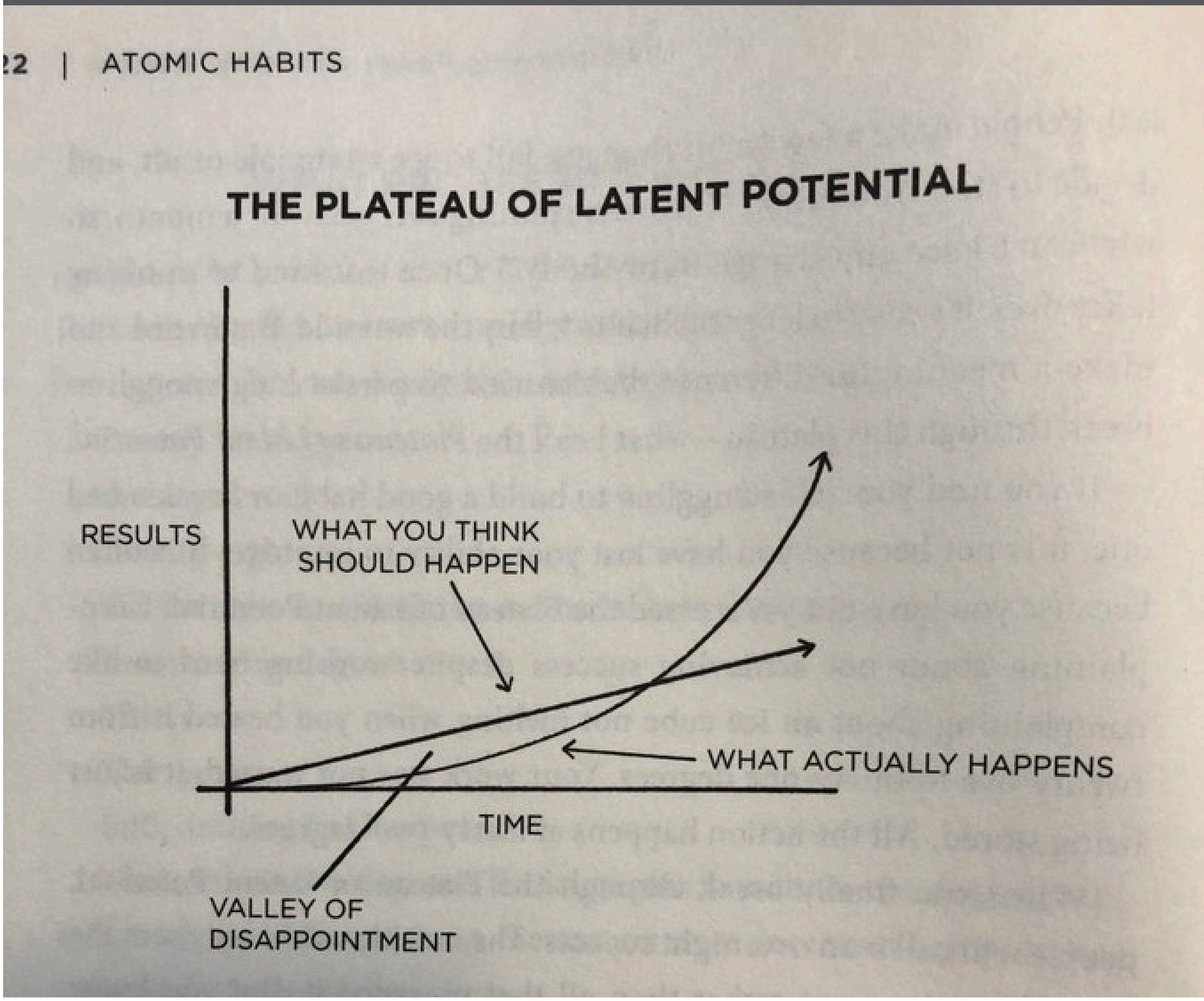

“Money cannot buy happiness, but it buys the conditions for happiness: time, occasional freedom from constantly worry, a moment of breath to plan for the future, and the ability to be generous.”
@hodgman

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Science of the Future

Biotechnology is exploding and will change the future. For just a glimpse-watch this 60 minutes segment from December https://www.cbsnews.com/news/harvard-geneticist-george-church-goal-to-protect-humans-from-viruses-genetic-diseases-and-aging-60-minutes-2019-12-08/

“Opportunity is missed by most people because it is dressed in overalls and looks like work.” – Thomas Edison

Trade money for time, not time for money. You’re going to run out of time first.-Navil Ravikant

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