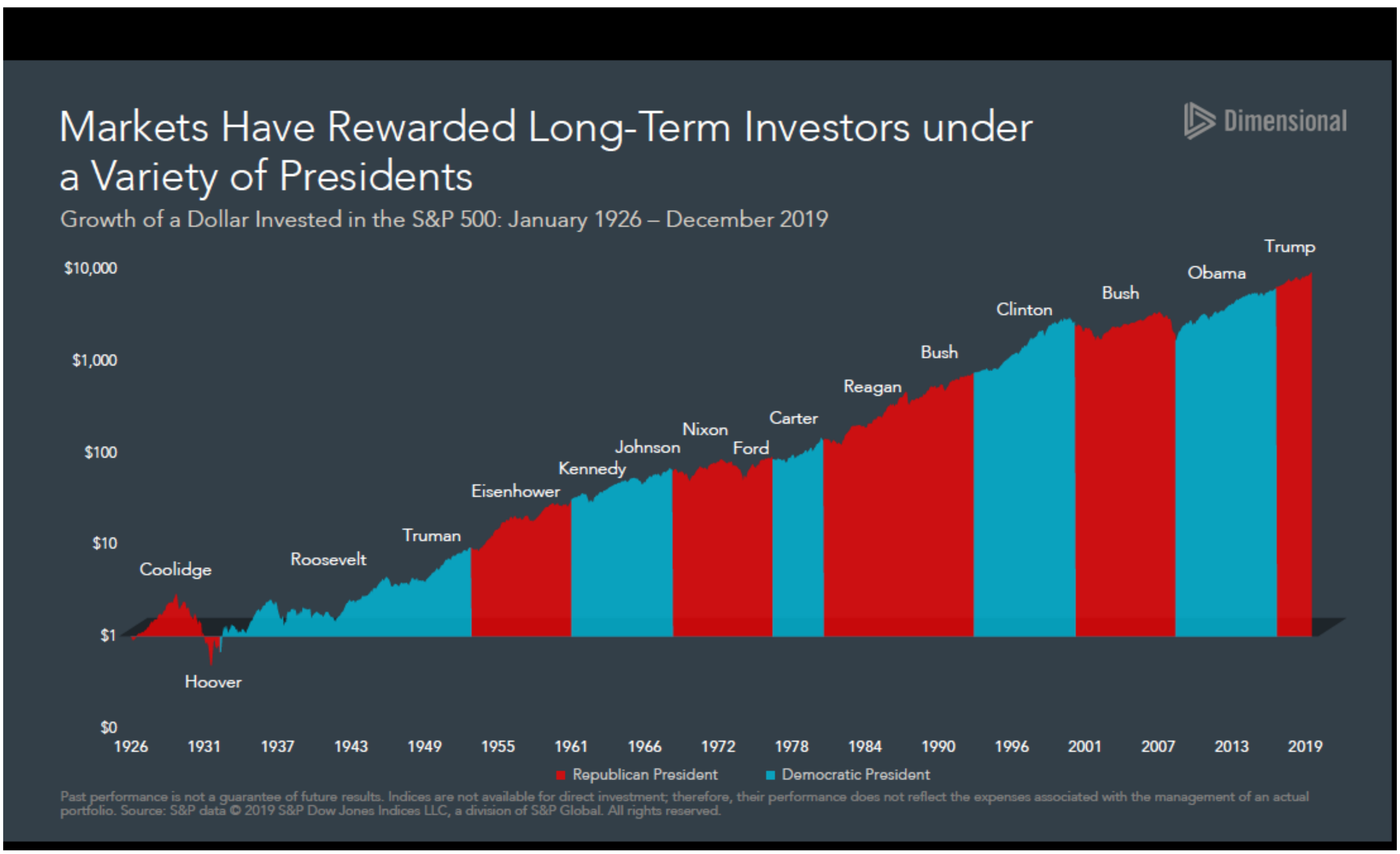
Wealth Care LLC November 2020 Commentary

Investment Thoughts

Of Interest:



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There are always reasons not to invest

The table below comes from Hartford Funds and shows us that historical reasons to "stay out of the market" should be ignored by those with a long term perspective. (https://www.hartfordfunds.com/practice-management/client-conversations/there-are-always-reasons-not-to-invest.html?utm_campaign=market_perspectives&utm_content=ReasonsNotToInvest_Quotes&utm_medium=native&utm_source=basisdsp)

Staying Invested Despite Negative News

1970 Reasons not to invest	Stock Returns in 1970	Growth of $10,000: 1970-2019
US invades Cambodia		
Vietnam War protests escalate	3.9%	$1,530,989
US recession		
1980 Reasons not to invest	**Stock Returns in 1980**	**Growth of $10,000: 1980-2019**
Inflation is rampant: 13.5%		
Iranian hostage crisis	32.5%	$867,369
Cold War tensions		
1990 Reasons not to invest	**Stock Returns in 1990**	**Growth of $10,000: 1990-2019**
First Iraq War		
US recession	-3.1%	$172,731
Lingering Cold War tensions		

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2000 Reasons not to invest	Stock Returns in 2000	Growth of $10,000: 2000-2019
Dot-com bubble bursts		
Energy prices spike	-9.1%	$32,421
Bush vs. Gore election and recount		
2010 Reasons not to invest	**Stock Returns in 2010**	**Growth of $10,000: 2010-2019**
Lingering fears from the Great Recession		
Unemployment rate: 9.6%	15.1%	$35,666
Uncertainty about healthcare reform		
2020 Reasons not to invest	**Stock Returns in 2020**	**Growth of $10,000: 2020**
Coronavirus outbreak		
Election year uncertainty	???	???
Tensions in the Middle East		

Sources: Morningstar and Hartford Funds, 2/20. This table assumes an initial investment of $10,000 in stocks (represented by the S&P 500 Index) at the beginning of the period (January 1) and held through the end of the referenced period (December 31). Results will vary for other time periods and investment strategies. Assumes reinvestment of dividends and capital gains and no taxes or transaction costs. The S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks. Past performance does not guarantee future results. The index is unmanaged and not available for direct investment. For illustrative purposes only.

My comment would be that there have been two times in the last fifty years that I can remember a time at which market prices seemed insanely overpriced-that would be the tech stocks in 1998-9, and some real estate in 2004-6. It was prudent to avoid these asset classes just at those times, but otherwise staying the course for the long run has always paid off well.

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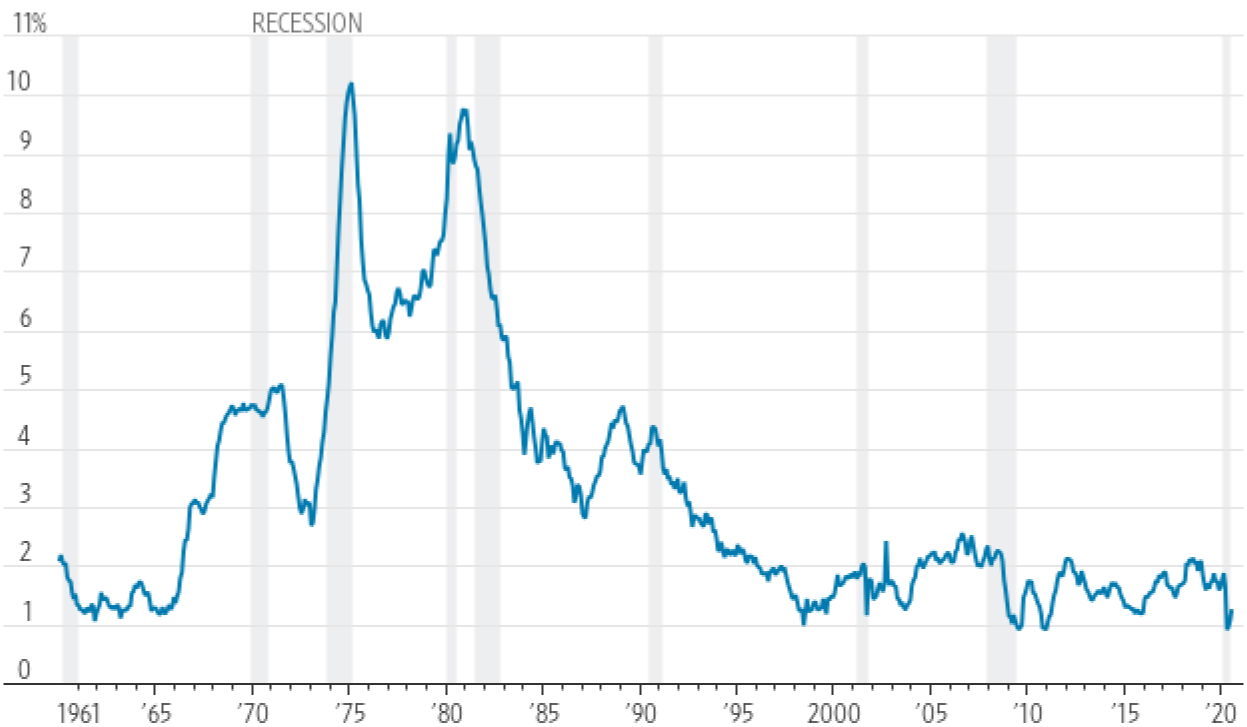
As to the opposite-times to “get into the market” with available cash-there have been several of those I remember as well. Stocks and some real estate in 2008-2010 were priced for the end of the world and were great values-yet almost no one wanted either (a message in there!).

Understanding Real Returns and Inflation

Price Pressures

Until the mid-1990s, rising inflation prompted the Fed to raise rates. A downturn ensued.

12-month core inflation rate



Note: Seasonally adjusted. Core inflation excludes food and energy.
Source: Commerce Department via St. Louis Fed

Real vs Nominal Returns

Inflation in the US is currently reported as 0.6% a year. Note that this is an aggregate based on a number of goods that not every family uses in the same proportion from the calculated index (so different families “see” different inflation rates in reality). Many analysts think that the real rate of inflation most Americans currently see is closer to the historic 2-3% range annually.

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If a bond or CD pays 0.5% interest-then that is the "nominal rate." But the real rate (after inflation) is an actual loss of 0.1% (.5-.6%) per year. As inflation increases, we need a higher nominal return to just "keep up" and therefore have a positive real return.

Real return is what counts to produce the ability to keep up or surpass inflation and preserve purchasing power over time-especially longer periods of time.

Currently, all US government debt has a negative real return-astounding. Most other fixed income might have a miniscule positive return, but also significant risk. We think about two risks for our fixed income investments. The first would be rising interest rates-which would cause the prices of all but the shortest-term bonds to drop. The second risk would be more inflation-even if interest rates continue to be suppressed by the Federal Reserve. The inflation would be a true silent killer of purchasing power. We think about fixed income regularly and remain cautious.

Miscellaneous

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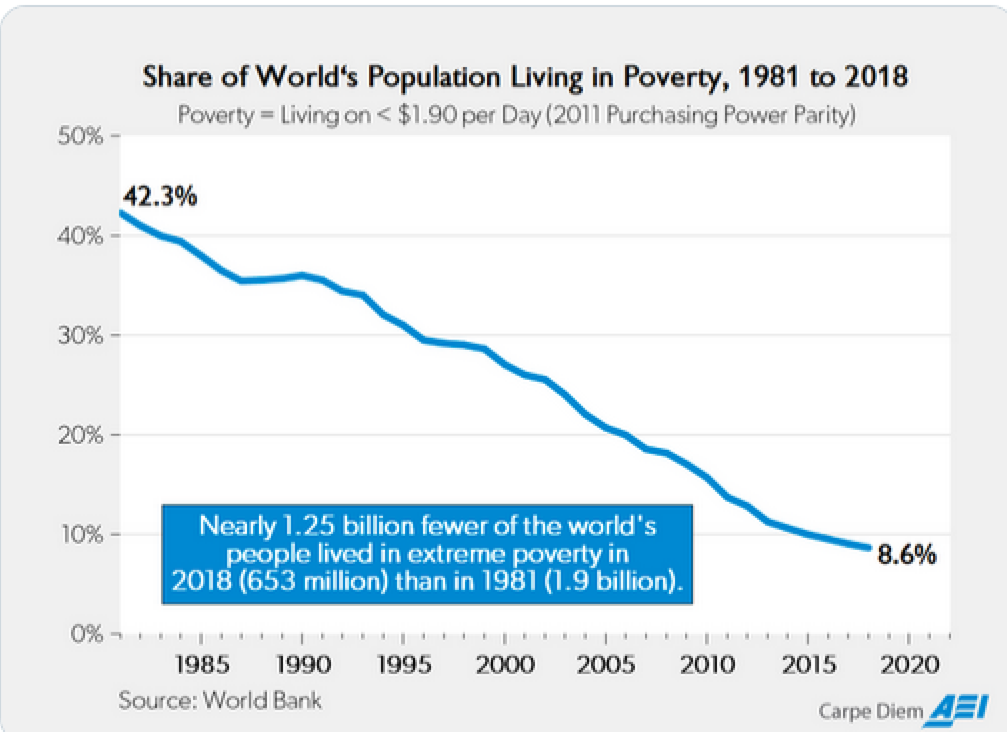
The amazing 80% reduction in world poverty from 42.3% in 1981 to 8.6% in 2018. It probably took 1,000 years to cut the poverty rate in half from to 84% to 42% in 1981; then 24 years to get to 21% in 2005 and then only 10 years to cut it in half again to 10% in 2015. #Capitalism



How is the World's Wealth Divided?

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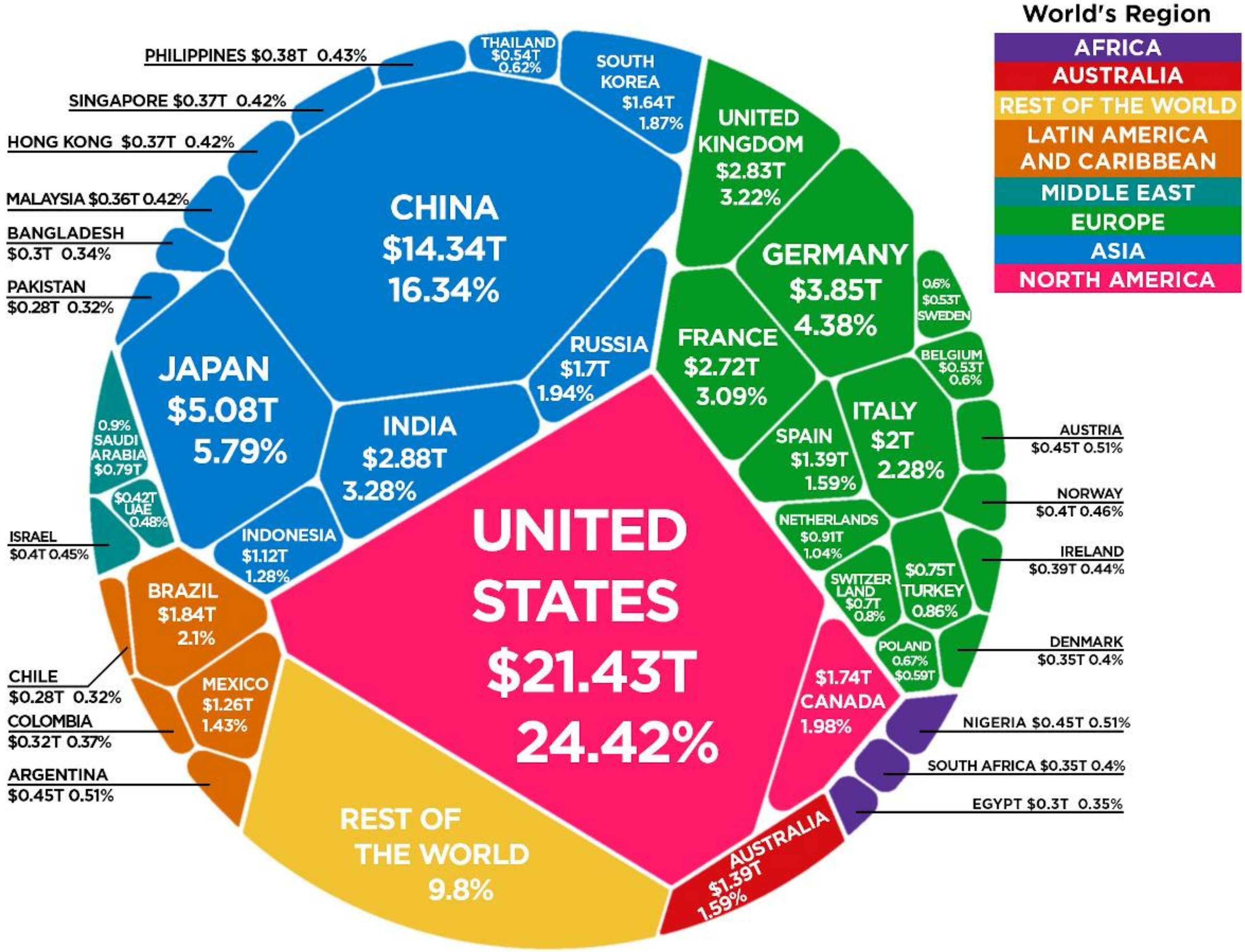

Article & Sources:
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Random Thoughts

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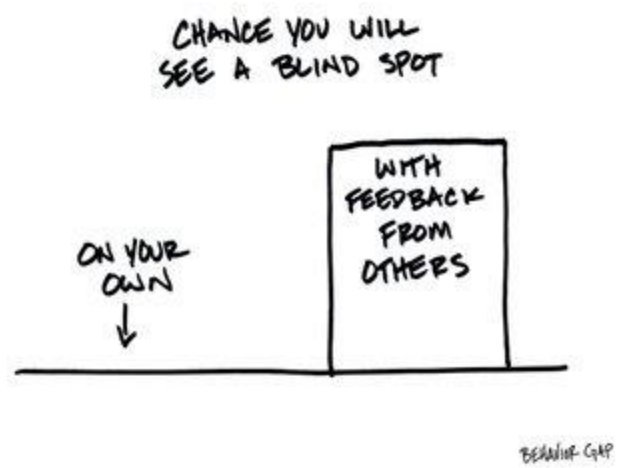

You only fail if you keep making the same mistakes. Otherwise, it is called learning.

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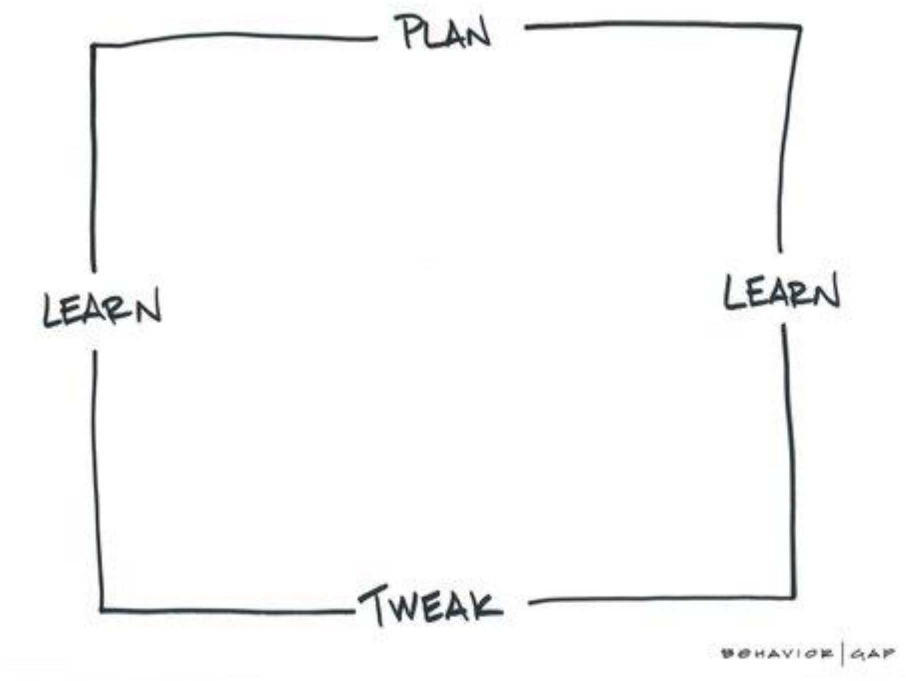

It takes a lot of time to grow fast.

Promptness is a sign of respect.

Optimize your generosity. No one on their deathbed has ever regretted giving too much away.

You are what you do. Not what you say, not what you believe, not how you vote, but what you spend your time on.

Experience is overrated. When hiring, hire for aptitude, train for skills. Most really amazing or great things are done by people doing them for the first time.

Brin and Page (the founders of Google) tried to sell the Google search algorithm to Excite for $1 million in 1999. Excite turned them down. Sometimes even founders don't know they are sitting on a gold mine. Investing is hard.

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