



Wealth Care LLC April 2021 Commentary

Investment Thoughts

We have been thinking/worrying about fixed income and interest rates for several months now (see past monthly commentaries). Interest rates keep rising along with prices for many of the things we buy. The housing market is on fire, car prices are up, food and gasoline are rising rapidly. The “safe” US long treasury bond just has its fastest and largest 3 month drop in price in forty years as a result. This bond lost 20% in price while paying 2% annual interest. Ouch.

As we have noted before, Wealth Care LLC is using a combination of global actively managed funds to try to make *any* money in fixed income-and we have been happy with our choices (using global income funds, high yield funds, preferred stock funds and convertible bond funds and avoiding intermediate to long term domestic bonds). Remember that even cash loses purchasing power at the rate of inflation (which is? what really?).

We think we are seeing a rotation away from US large growth (and tech) stocks towards small US companies and foreign stocks (see the chart below)-but too early to be sure. Lots of money sloshing around already and more coming from the stimulus bill suggests plenty of firepower to keep buying stocks.



New Leadership

The outperformance of value stocks has kept the S&P 500 in the green this year, while shares of growth companies struggle.

Index performance, year to date



As of March 26, 7:11 p.m. ET

Source: FactSet

Inflation

This great chart shows how long it takes to cut your purchasing power in half at different rates of inflation (it ignores the additional drag of taxes). So, with a “traditional rate of 3% inflation”, you must double your money every 23 years just to be able to buy the same amount of stuff as today.



When Inflation Cuts Money in Half



Here is just one marker of our supposedly controlled inflation, lumber-which has doubled in price in less than a year.



Lumber price per thousand board feet

Random Lengths Framing Lumber Composite Price

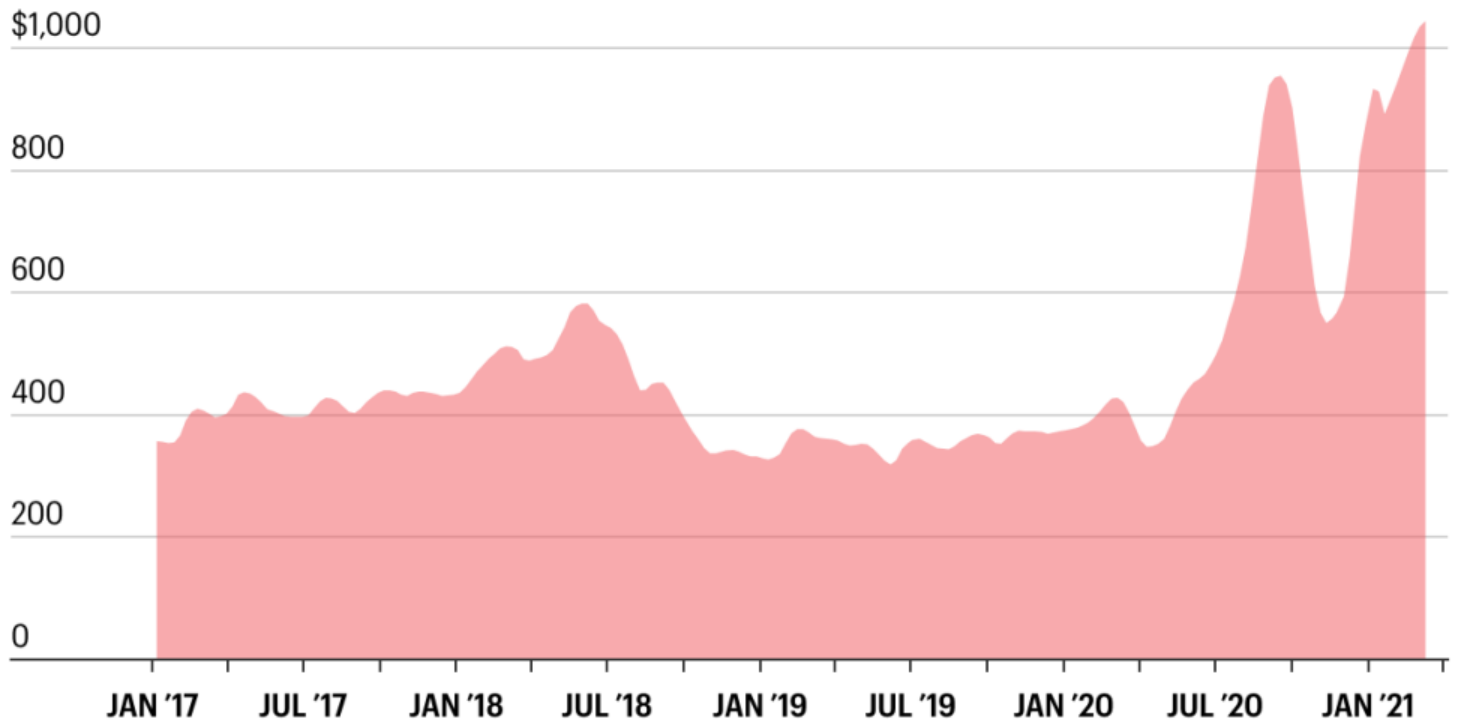


CHART: LANCE LAMBERT • SOURCE: RANDOM LENGTHS

FORTUNE

Investing Early Pays Off (as does what you are investing in):

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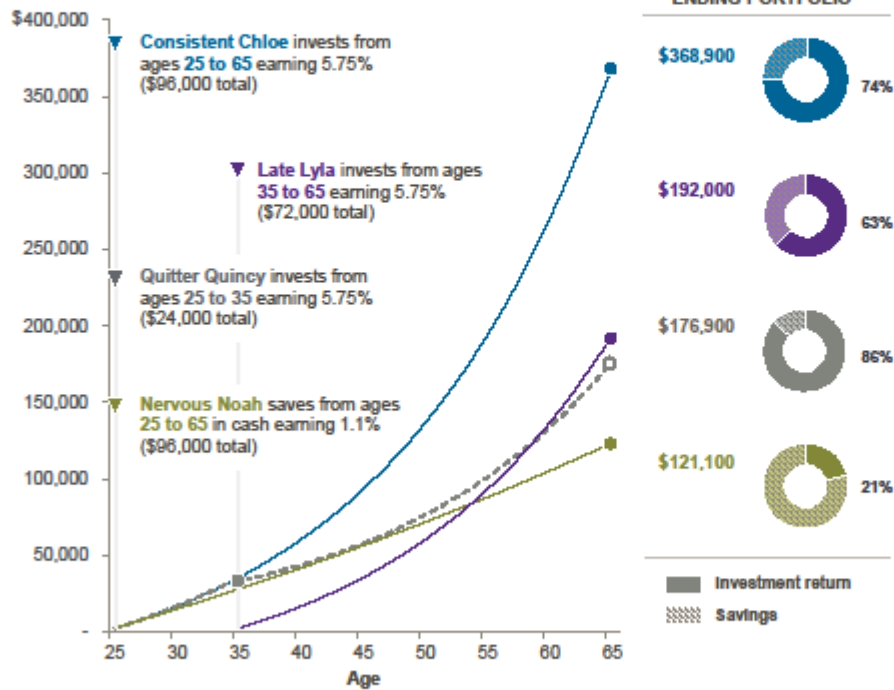
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Benefit of saving and investing early

Account growth of \$200 invested/saved monthly



SAVING FUNDAMENTALS
Saving early and often, and investing what you save are some of the keys to a successful retirement due to the power of long-term compounding.

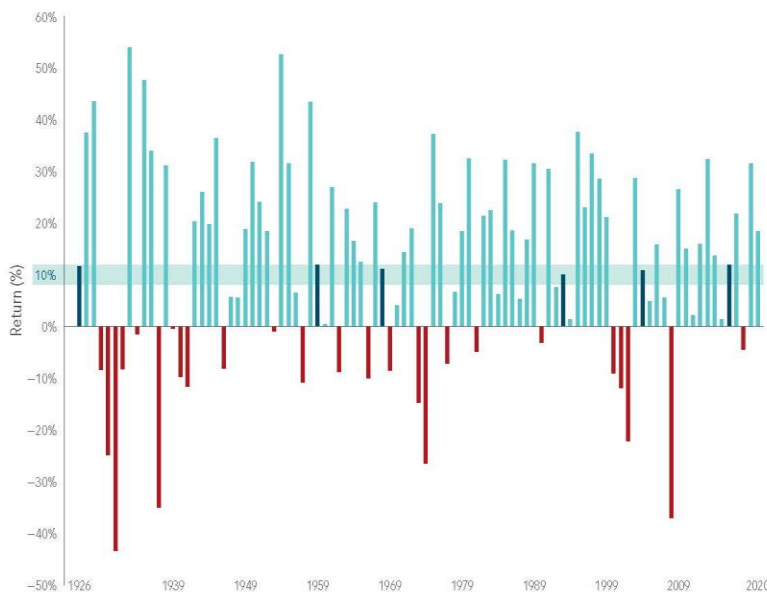
The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 5.75% annual return and cash assumes a 1.1% annual return. Source: J.P. Morgan Asset Management, Long-Term Capital Market Assumptions. Compounding is the increasing value of assets due to investment return earned on both principal and prior investment gains.

But investing in stocks is not a straight line up:



The Bumpy Road to the Market's Long-Term Average

S&P 500 INDEX
ANNUAL RETURNS 1926-2020



Since 1926, the US stock market has rewarded investors with an average annual return of about 10%. But it's important to remember that returns in any given year may be sky-high, extremely poor, or somewhere in between.

- Annual returns came within two percentage points of the market's long-term average of 10% in just six of the past 95 years.
- Yearly returns have ranged as high as up 54% and as low as down 43%.
- Since 1926, annual returns have been positive 70 times and negative 25 times.

Understanding the range of potential outcomes can help you stick with a plan and ride out the inevitable ups and downs.

“The pessimist sees difficulty In every opportunity. The optimist sees opportunity In every difficulty.” Winston Churchill

Miscellaneous

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What to Watch

Just type [“what to watch”](#) in the Google search bar and you’ll be presented with what appears to be an algorithmically curated offering of popular shows. Somehow, the list it generates is better suited to my interests than [Just Watch](#) or other streaming recommendation services. You can filter by TV show or movie and by genre and, most importantly to me, subgenre (like “Horror dramas”). — MF

Random Thoughts

Five Crazy Facts About the Stock Market

1. Since 1916, the Dow has made new all-time highs less than 5% of all days, but it’s up 25,568% over that time.

95% of the time, you’re underwater. The less you look, the better off you’ll be.

2. The Dow has compounded at less than 3 basis points a day since 1970. Since then it’s up more than 3,000%.

Compounding really is magic.

3. The Dow has only been positive 52% of all days. The average daily return is 0.73% when it’s up and -0.76% when it’s down.

See above.

4. The Dow has spent more time 40% or more below the highs than within 2% of the highs (20.6% of days vs. 18.4% of days)

No pain, no gain.



5. The Dow gained 38 points in the 1970s

See above.

6. Why am I using the Dow instead of the S&P 500? They're effectively the same thing. The rolling one-year correlation since 1970 is .95.

Stop wasting your time on this.

-Michael Batnick



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The Trend Indicators

There is always a disposition in people's minds to think that existing conditions will be permanent.

When the market is down and dull, it is hard to make people believe that this is the prelude to a period of activity and advance. When the prices are up and the country is prosperous, it is always said that while preceding booms have not lasted, there are circumstances connected with this one which make it unlike its predecessors and give assurance of permanency. The one fact pertaining to all conditions is that they will change.

—Charles H. Dow, 1900