



Wealth Care LLC December 2018 Commentary

Investment Thoughts

From the Wall Street Journal this week:

By one measure, global stocks and bonds are both on track to finish the year in the red for the first time in at least a quarter-century, said Belinda Boa, head of active investments for Asia Pacific at BlackRock in Hong Kong. Major stock benchmarks in the U.S., Europe, China and South Korea have all slid 10% or more from recent highs. Crude oil's tumble has dragged it well into bear market territory, emerging-market currencies have broadly fallen against the U.S. dollar, and bitcoin's price—which had a meteoric rally last year—crashed below \$5,000 this past week for the first time since October 2017.

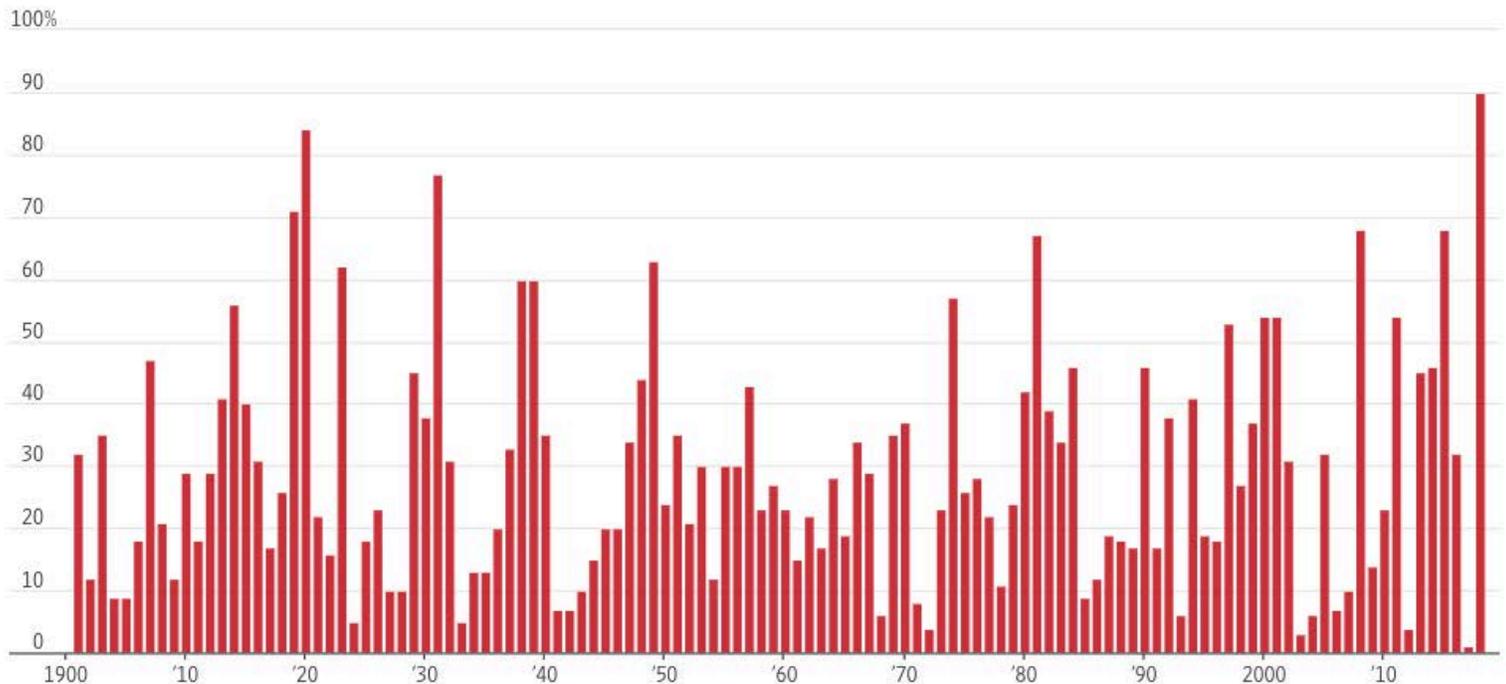
Havens such as U.S. Treasury bonds and gold rallied this fall as U.S. stocks and industrial commodities staged their fourth-quarter swoon. But both are still down on a price basis for the year, reflecting solid economic growth and tighter Federal Reserve policy that have begun to push interest rates out of their post-financial crisis doldrums.

All told, 90% of the 70 asset classes tracked by Deutsche Bank are posting negative total returns in dollar terms for the year through mid-November, the highest share since 1901.



Under Pressure

A record share of asset classes have posted negative total returns this year, according to Deutsche Bank data going back to 1901.



Note: Returns are in U.S. dollars. Data for 2018 are as of mid-November.

Sources: Deutsche Bank; Bloomberg Finance LP; GFD

Comment: A nice rally in the US market this last week brought US indexes into the green for the year. As November ends, we see the following year to date performance:

Dow 30 index began the year at 24,824 ended at 25,510 (up about 3%)

S&P 500 index began the year at 2695 ended at 2755 (up about 2%)

Nasdaq (tech) began the year at 7006 ended at 7330 (up about 5%)

Foreign Developed Stocks (VEA as a proxy) began the year at 45.25 ended at 39.75 (down 12%)

Emerging Markets Stocks (VWO as a proxy) began the year at 46.7 ended at 39.7 (down almost 15%)

US Aggregate Bonds (AGG) began the year at 109.2 ended at 104.9 (down about 4%)

Despite the absence of almost any positive returns on our investments in 2018, things could be much worse-it was just a decade ago that major stock indexes dropped around 50%. What's so unusual is that diversification doesn't help when everything is mostly going in one direction.



When both bonds and many stocks are moving mostly down together, there is nowhere to “hide.” But the fact that we look at markets based on calendar years makes little sense—markets move in multiple year cycles and in the long run have always gone up at a reasonable rate. We continue to believe that US markets are reasonably priced and that many foreign markets are historically “cheap.” Fixed income will remain tough as we don’t know how much higher interest rates will go or how much inflation to expect.

I put this chart in our monthly commentaries at least annually to remind us that calendar year performance for asset classes are unpredictable. Note that Emerging Markets were the worst performing asset class in 2016, but the best in 2017. Note that Emerging Markets were the best performing asset class in seven of the ten years between 2003 and 2012, and then began a four year dry spell. Owning the majority of asset classes keeps us from staying at the top of the chart, but also keeps us off the bottom.

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices Ranked in Order of Performance (1998–2017)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
S&P 500 Growth	MSCI Emerging Markets	Russell 2000 Value	Russell 2000 Value	Bloomberg Barclays Agg	MSCI Emerging Markets	Bloomberg Barclays Agg	MSCI Emerging Markets	Russell 2000 Growth	Bloomberg Barclays Agg	MSCI Emerging Markets	Russell 2000 Growth	S&P 500 Growth	S&P 500 Growth	Russell 2000 Value	MSCI Emerging Markets				
42.16%	66.84%	22.83%	14.02%	10.26%	55.82%	25.55%	34.00%	32.17%	39.38%	5.24%	78.51%	29.09%	7.84%	18.23%	43.30%	14.89%	5.52%	31.74%	37.28%
S&P 500	Russell 2000 Growth	Bloomberg Barclays Agg	Bloomberg Barclays Agg	Bloomberg Barclays High Yield	Russell 2000 Growth	Russell 2000 Value	MSCI World ex USA	MSCI World ex USA	MSCI World ex USA	Bloomberg Barclays High Yield	Bloomberg Barclays High Yield	Russell 2000	Bloomberg Barclays High Yield	Russell 2000 Value	Russell 2000	S&P 500	S&P 500	Russell 2000	S&P 500 Growth
28.58%	43.09%	11.63%	8.43%	-1.37%	48.54%	22.25%	14.47%	25.71%	12.44%	-26.16%	58.21%	26.85%	4.98%	18.05%	38.82%	13.69%	1.38%	21.31%	27.44%
MSCI World ex USA	Russell 2000 Growth	S&P 500 Value	Bloomberg Barclays High Yield	MSCI Emerging Markets	Russell 2000	MSCI World ex USA	S&P 500 Value	Russell 2000 Value	S&P 500 Growth	Russell 2000 Value	Russell 2000 Growth	Russell 2000 Value	S&P 500 Growth	S&P 500 Value	Russell 2000 Value	S&P 500 Value	Bloomberg Barclays Agg	S&P 500 Value	MSCI World ex USA
18.77%	28.24%	6.08%	5.28%	-6.16%	47.25%	20.38%	5.82%	23.48%	9.13%	-28.92%	34.47%	24.50%	4.65%	17.68%	34.52%	12.36%	0.55%	17.40%	24.21%
S&P 500 Value	MSCI World ex USA	Russell 2000	Russell 2000	Russell 2000 Value	Russell 2000 Value	Russell 2000	S&P 500	S&P 500	Russell 2000 Growth	Russell 2000	MSCI World ex USA	MSCI Emerging Markets	S&P 500	MSCI World ex USA	S&P 500	Bloomberg Barclays Agg	Russell 2000 Growth	Bloomberg Barclays High Yield	Russell 2000 Growth
14.68%	27.92%	-3.02%	2.49%	-11.43%	46.03%	18.33%	4.91%	20.81%	7.05%	-33.79%	33.67%	18.88%	2.11%	16.41%	32.75%	5.97%	-1.38%	17.13%	22.17%
Bloomberg Barclays Agg	Russell 2000	Bloomberg Barclays High Yield	MSCI Emerging Markets	MSCI World ex USA	MSCI World ex USA	S&P 500 Value	Russell 2000 Value	Russell 2000	Bloomberg Barclays Agg	S&P 500 Growth	S&P 500 Growth	Bloomberg Barclays High Yield	S&P 500 Value	Russell 2000	S&P 500	Russell 2000 Growth	MSCI World ex USA	S&P 500	S&P 500
8.67%	21.26%	-5.86%	-2.61%	-15.80%	39.42%	15.71%	4.71%	18.37%	6.97%	-34.92%	31.57%	15.12%	-0.48%	16.35%	32.39%	5.60%	-3.04%	11.96%	21.83%
Bloomberg Barclays High Yield	S&P 500	S&P 500	Russell 2000 Growth	Russell 2000	S&P 500 Value	Russell 2000 Growth	Russell 2000	S&P 500	S&P 500	S&P 500	Russell 2000	S&P 500	Russell 2000 Growth	S&P 500	S&P 500 Value	Russell 2000	S&P 500 Value	Russell 2000 Growth	S&P 500 Value
1.87%	21.04%	-9.11%	-8.23%	-20.48%	31.79%	14.31%	4.55%	15.79%	5.49%	-37.00%	27.17%	15.10%	-2.91%	16.00%	31.99%	4.89%	-3.13%	11.32%	15.36%
Russell 2000 Growth	S&P 500 Value	MSCI World ex USA	S&P 500 Value	S&P 500 Value	Bloomberg Barclays High Yield	Bloomberg Barclays High Yield	Russell 2000 Growth	Russell 2000 Growth	S&P 500 Value	Russell 2000 Growth	S&P 500	S&P 500	Russell 2000	Bloomberg Barclays High Yield	MSCI World ex USA	Russell 2000 Value	Russell 2000	MSCI Emerging Markets	Russell 2000
1.23%	12.73%	-13.37%	-11.71%	-20.85%	28.97%	11.13%	4.15%	13.35%	1.99%	-38.54%	26.47%	15.06%	-4.18%	15.81%	21.02%	4.22%	-4.41%	11.19%	14.65%
Russell 2000	Bloomberg Barclays High Yield	S&P 500 Growth	S&P 500	S&P 500	S&P 500	S&P 500	S&P 500 Growth	Bloomberg Barclays High Yield	Bloomberg Barclays High Yield	S&P 500 Value	S&P 500 Value	S&P 500 Growth	Russell 2000 Value	S&P 500 Growth	Bloomberg Barclays High Yield	Bloomberg Barclays High Yield	Bloomberg Barclays High Yield	S&P 500 Growth	Russell 2000 Value
-2.55%	2.39%	-22.08%	-11.89%	-22.10%	28.68%	10.88%	4.00%	11.85%	1.87%	-39.22%	21.17%	15.05%	-5.50%	14.61%	7.44%	2.45%	-4.47%	6.89%	7.84%
Russell 2000 Value	Bloomberg Barclays Agg	Russell 2000 Growth	S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	S&P 500 Growth	Bloomberg Barclays High Yield	S&P 500 Growth	Russell 2000	MSCI World ex USA	Russell 2000 Value	MSCI World ex USA	MSCI World ex USA	Russell 2000 Growth	Bloomberg Barclays Agg	MSCI Emerging Markets	Russell 2000 Value	MSCI World ex USA	Bloomberg Barclays High Yield
-6.45%	-0.63%	-22.43%	-12.73%	-23.59%	25.66%	6.13%	2.74%	11.01%	-1.57%	-43.56%	20.58%	8.95%	-12.21%	14.59%	-2.02%	-2.19%	-7.47%	2.75%	7.50%
MSCI Emerging Markets	Russell 2000 Value	MSCI Emerging Markets	MSCI World ex USA	Russell 2000 Growth	Bloomberg Barclays Agg	Bloomberg Barclays Agg	Bloomberg Barclays Agg	Bloomberg Barclays Agg	Russell 2000 Value	MSCI Emerging Markets	Bloomberg Barclays Agg	Bloomberg Barclays Agg	MSCI Emerging Markets	Bloomberg Barclays Agg	MSCI Emerging Markets	MSCI World ex USA	MSCI Emerging Markets	Bloomberg Barclays Agg	Bloomberg Barclays Agg
-25.34%	-1.49%	-30.71%	-21.40%	-30.26%	4.10%	4.34%	2.43%	4.33%	-9.78%	-53.33%	5.93%	6.54%	-18.42%	4.21%	-2.60%	-4.32%	-14.92%	2.65%	3.54%



Miscellaneous

Who are you going to believe? These articles were two weeks apart:



Goldman Sachs warns the economy may be growing too quickly

Yahoo Finance - Nov 5, 2018

Goldman Sachs is worried that inflation could rise faster than ... Hatzius predicted that average hourly earnings would likely grow in the 3.25% ...



Goldman Sachs believes the US economy will slow to a crawl next year

CNBC - 8 hours ago

Goldman Sachs believes the US economy will slow to a crawl next year ... the bank predicted, noting there was also a chance of an "inflation ...

6 Headwinds Facing Stocks In 2019: **Goldman Sachs**

Investopedia - 3 hours ago

Changes to Retirement Plan Contributions in 2019

IRA contributions up to age 49-increases to \$6000

IRA contributions for 50 and older-\$7000

Salary deferral in 401k plans-\$19,000 or \$25,000 (under 50/over)

Total 401k contribution with profit sharing \$56,000/\$62,000

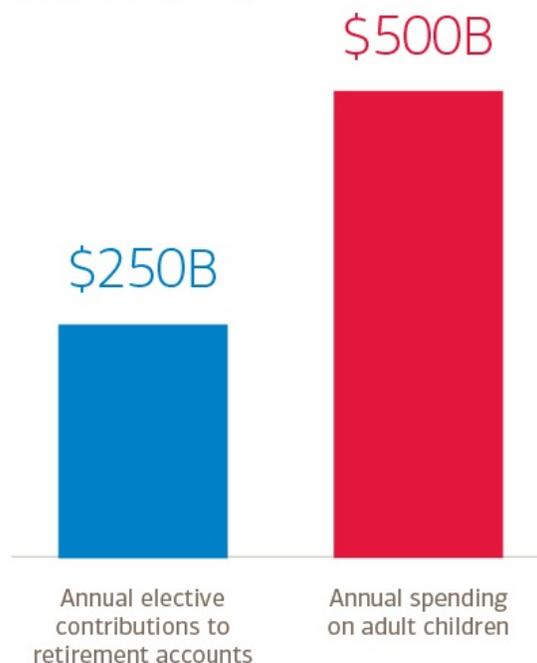
SIMPLE IRA deferral increases to \$13,000



Tax Credits Under New Tax Laws

Good news for families with children under age 17. If your family income is under \$400,000 (half that for single parents), you can claim a \$2000 per year tax credit on your return. After age 17 (and also for supporting financial dependent parents), you can claim \$500 per year.

PARENT SPENDING ON ADULT CHILDREN (18-34)



Make your pets talk

I heard about [My Talking Pet App](#) (iOS and Android) on the [Cool Tools Podcast episode with Kari Byron](#). With just a photo, I can make my puppy and kitten say ridiculous things and then share those videos via text. Every pet owner needs this app. — CD

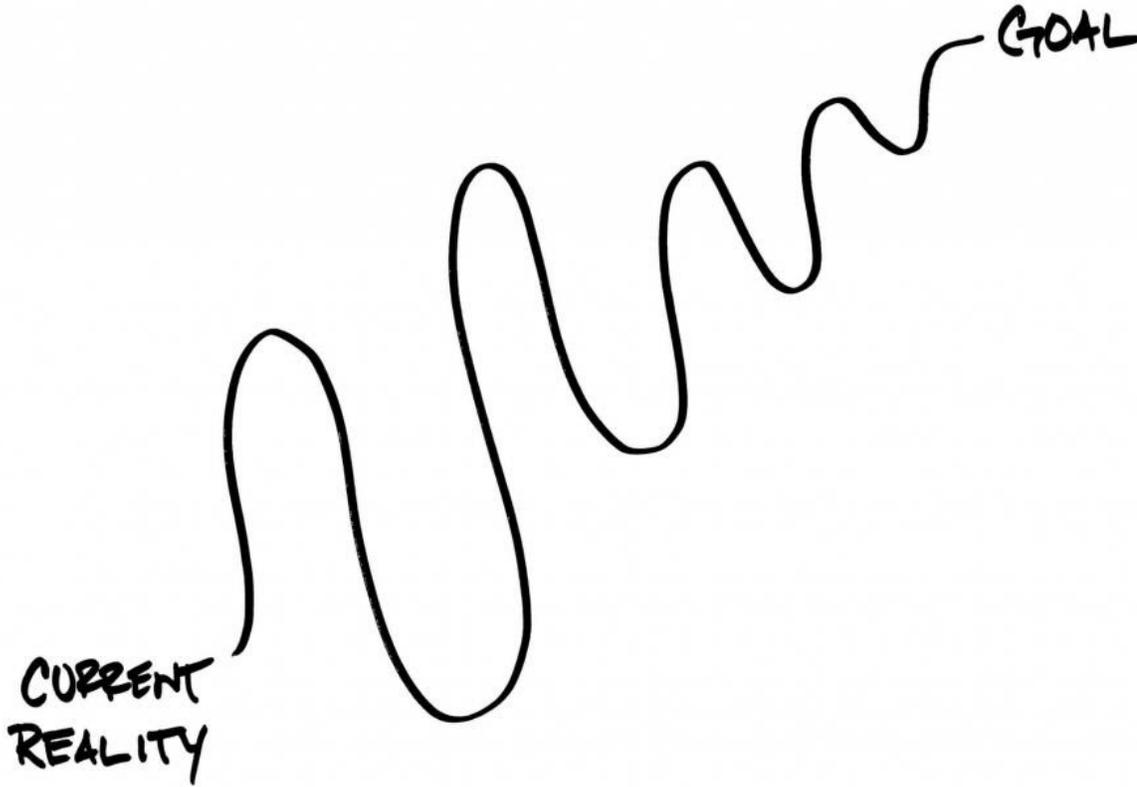


Random Notes

There are three legal investment strategies: You can be smarter than others. You can be luckier than others. Or you can be more patient than others. Know your edge and how hard it is to maintain. -Morgan Housel

A Watched Portfolio Never Grows-Dan Egan

From Sept. 12, 2008 to yesterday, the S&P 500 is up 185.9%, or 11.08% annualized. Your money nearly tripled in 10 years. From Sept. 12, 2008 to March 9, 2009, the S&P 500 lost 45.15%. You lost almost half your money in less than six months. You can't have one without the other. Jason Zwieg



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Steven Podnos MD CFP® for Wealth Care LLC December 1, 2018