Comprehensive Investment Management, LLC
Fee Only Personal Financial Planning
Winter 2021

A Review of the Financial Markets at December 31, 2020

Stocks finished with their third straight quarter of big gains. The first of the three just gave back what was lost the previous quarter, but the next (9.2%) and the more recent (14.7%) left stocks solidly in the black. Quite a performance after falling 34% in just over three weeks in March. A big surge after the November election made the difference. At the end of October stocks were up only 3.2%, and were dragged down by small cap stocks which were at a negative 4.4%. After the turnaround, stocks ended 2020 up 20.9% and small caps 19.1%. Perhaps Wall Street was more concerned about the election than it had let on. The market experienced not only one of the best Novembers on record but one of the best months ever. There was the relief that the election results were not that close and that Joe Biden's win became clear to most people within a few days. In addition there was no Democratic blue wave, so that lessened concern for large tax and regulation increases and other legislation less friendly to business. On the other side of the ledger, a Democratic president can be expected to push Congress harder for more pandemic relief and renewed infrastructure spending. Democrats taking control of the Senate with the wins in Georgia in January add to that scenario.

Here is something you haven't heard in a long time. Over the past year our foreign investments outdid the domestic. Vanguard's International Growth led all funds with an annual return of 59.5%. Not bad at all. Electric automaker Tesla (up 695%) is listed as the fund's single biggest holding (6% of its total $54 billion) so that may have something to do with the fund's strong performance. How is it an international fund holds Tesla stock? Good question. Mutual funds have some flexibility in managing their portfolio and having up to 15% in US stocks in an international fund is considered ok. They are required, however, to manage a portfolio that matches the fund's stated mission and is consistent with its name. At the end of November, International Growth lists 14.6% of its stock portfolio in US companies. In a recent report it described holdings that had out performed but, curiously, it didn't mention Tesla.

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Average Returns of Mutual Funds Recommended by CIM

At December 31, 2020	Quarter	1 Year	3 Years	5 Years	10 Years	15 Years
Large Cap Stocks	14.6	13.6	11.7	14.3	13.8	10.8
Mid Cap Stocks	18.8	23.3	13.5	15.6	15.0	11.9
Small Cap Stocks	24.9	27.9	16.3	16.9	14.5	11.8
Healthcare Stocks	9.3	21.4	15.6	11.6	17.8	13.6
Foreign Stocks	21.0	38.0	14.0	16.7	11.8	10.0
Short Term Bonds	.6	4.9	3.7	3.0	2.3	3.2
Intermediate Bonds	1.9	8.8	6.0	5.4	4.7	5.1

The Financial Markets (continued from page 1)

The second highest return was from Brown Capital Management (45.3%) which owns zero Tesla stock. The small cap fund has 75% of its portfolio spread across healthcare, information technology and business services. Two other funds that returned better than 30% in 2020 were Vanguard Explorer and T. Rowe Price Health Sciences.

Conservative intermediate bond funds averaged 9.6% for 2020. A reasonable question is how is it possible for bonds to do well when interest rates are at historic lows? Actually the bond funds were in the red until COVID-19 hit in March and the Federal Reserve quickly reduced interest rates to zero. When rates go down bond values go up in the short term. Bond yields indicate what return an investor can expect going forward and current yields are in the range of 1.5%. So it is very likely that bonds will return between 1% and 2% in 2021. The less conservative Vanguard High Yield Corporate Bond fund is currently yielding 3.1%, but returned just 5.3 in 2020.

Close to 400,000 have died from COVID-19, currently over 130,000 are in hospitals, with 20% in intensive care. The economy is almost 4% smaller than a year ago. The US work force has shrunk by more than 9 million jobs. Broadway and our own local theaters are shuttered. Attendance at the few movie houses that are open is down 90%. Other than what is available on line, almost all forms of entertainment, dining, travel etc. have been severely restricted. And yet, despite all that, the stock market had a banner year. It seems nothing can keep this market down. So what can be predicted for the year 2021 when there appears to be a flicker of light at the end of a long tunnel?

If the vaccine rolls out according to most estimates, a spurt of economic activity can be expected in the second half of 2021. But should investors expect to profit from the return of normalcy? Most likely a recovery is already priced into the markets. When the pandemic hit the Federal Reserve and Congress (yes Congress) took quick and extraordinary action. There were loans (some real, some forgivable), grants, stimulus checks and expanded unemployment benefits. Those actions pretty much explain why by the end of June stocks had climbed back from the March freefall. But the main reason the markets not only got back to even and kept going from there was that investors looked past the disaster. If that's the case, then when normalcy returns, why should we expect markets to go even higher? There is pent-up demand for goods and services in some areas, but remarkably others hardly broke stride in 2020.

Many financial commentators have passed on making their usual annual predictions. There are so many variables and moving parts that suggesting what will happen over any given twelve month period is simply a guess. It's not a good idea to have money that you may want or need to spend in the next five years invested in stocks. If that's the case, then a twelve month period is just not that important, even if it just happens to be predicted correctly.

Return of Vanguard Balanced Funds With Opposing Bond/Stock Allocations						
At Dec 31, 2020	Quarter	1 Year	3 Years	5 Years	10 Years	15 Years
Wellesley 65% bonds	5.6	8.5	7.1	7.9	7.8	7.3
Wellington 65% stocks	8.2	10.6	9.4	10.8	9.9	8.4
Average	6.9	9.5	8.3	9.3	8.8	7.9

An Action Plan For Long Term Care

About half of us will need a form of long term care at some point with the average cost estimated to be about $200,000. But averages are often not informative because they don't allow for the extremes. A recent study by CPA firm Price Waterhouse Cooper found that 25% of the time the cost was $26,000, 5% of the time $528,000 and 1% of the time almost a million dollars. It's a daunting task to plan when presented with such a wide range of possibilities.

Despite those figures - or probably because of them - many people delay putting together a long-term-care plan. In a survey by Genworth, one of the few companies still offering long term care insurance, two thirds of respondents said they expect government programs to cover all or part of their long term care costs. Medicare will pay for rehabilitation after qualifying hospital stays, but it has significant coverage strictures that preclude coverage beyond a relatively short time period, often less than 100 days.

For the individual the goal is to not become a burden financially or otherwise for family and friends. For a married couple, it can be more complicated. It's not at all uncommon for one spouse to need long term care while the other remains healthy. In such situations, the couple's financial resources will need to cover the costs of maintaining the household for the healthy spouse while simultaneously paying for long term care either in an institution or in the home.

Medicaid is the largest single payer for long term care and for many people it becomes the default plan. It has very strict eligibility limits based on income and assets. The assets that the community (in other words, healthy) spouse can retain, while the spouse qualifies for Medicaid, typically include a house, a car, and financial assets equal to one half of the couple's assets, subject to a maximum. For 2021 the maximum in most states is about $130,000.

The general consensus of financial planners is that someone with a lot of money, say more than a million dollars, can self insure. For a couple, the number would be doubled. Long term care insurance is expensive and premiums keep going up. Medical qualifications are tight and many companies no longer offer the insurance, including Met Life, once the industry leader. In recent years a form of hybrid policy has seen dramatic growth. They combine life insurance with long term care which can seem like an attractive option, until you consider that life insurance for older folks is hardly a bargain. In reality hybrid policies are another form of a whole life insurance or annuity product that combines investing with insurance. They are expensive, complex and inflexible.

Continuity Care Retirement Communities (CCRC) provide a gradation of care from independent living to assisted living to nursing home care. The goal is to enable individuals to reside in the same community for the remainder of their lives. CCRC's are usually the most costly of all elder-care options, often requiring an upfront payment in addition to monthly charges that may vary depending on the level of care provided. Some CCRC's offer (some require) lifetime contracts, where it agrees to continue to provide care if the resident's financial resources are exhausted. There are advantages to living in a CCRS, but if it is not your cup of tea, paying that big non refundable lump sum is, in a sense conceding the expensive 1% scenario. The popularity of CCRC's, where the elderly share communal space, can expect to take a hit because of the pandemic.

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Recent market activity can be newsworthy, and is certainly that at the present time. However investment returns over longer periods, while not predictive, are significantly more meaningful.

We Get Letters

Q: According to those in the know what impact will the pandemic have on facilities that cater to the older folks?

A: The New York Times has reported that almost half of COVID-19 deaths in the US relate to nursing homes and other long term care settings even though only 1% of the country's population live in such facilities. That includes a heavier fatality toll on workers as well as residents. Through December over 700,000 cases of the virus have occurred among long term residents and staff.

There is an additional toll on the quality of life for residents as facilities put restrictions on visitors and fraternization. Dining areas, where most socializing takes place, are mostly closed.

There has been more than a 15% decline in occupancy rates in skilled nursing facilities. Financially, nursing home margins have always been thin, so as occupancy declines and the cost of disease prevention increase, service cuts and eventually the closure of some facilities can be expected. Even before COVID there was a shortage of care providers, so labor costs are sure to increase as well.

Most long term care is provided in the home by unpaid caregivers and that has sharply increased with the pandemic. It's not hard to imagine the strain. 70% of younger caregivers report work scheduling problems. At least a third of the care providers are 65 and older themselves. One small bright spot, unlike in earlier times both Medicaid and long term care insurers usually provide some coverage for home care.

Some insurers have reported a positive impact on financial performance due to a reduction in claims for care due to a rise in deaths. However low interest rates continue to be a strain for the insurance industry, as their reserves in bond investments perform well below historic norms.