

Comprehensive Investment Management, LLC

Fee Only Personal Financial Planning

Summer 2019

A Review of the Financial Markets at June 30, 2019

Everything is relative. The big news in the financial media is that the current ten year US economic expansion is now the longest on record. What is not mentioned is the expansion follows the biggest financial crisis and economic decline since the Great Depression. There was no where to go but up from there. The expansion has been long, but has lacked the vigor of other recoveries. The Great Recession left behind lasting damage. Relativity also has to be considered when pundits tout the big stock gains so far (+19.8%) in calendar year 2019. The last quarter of 2018 (-14.3%) was a disaster for stocks and we needed the first quarter of 2019 (+14.0%) just to almost get back to even. Still, despite continuing concerns about a global economic slowdown and trade wars, all three major stock indexes (DOW, S&P 500 and Nasdaq Composite) hit all time new highs on July 3rd.

The following article and accompanying charts describe the performance of a select group of mutual funds. Recent market activity can be newsworthy, but for investment purposes performance over longer periods, while not predictive, is significantly more meaningful.

US Stocks

For the quarter our best performer is again Brown Capital, a fund which specializes in small cap stocks but finds itself currently holding a majority of shares in midcap companies. It seems successful small companies have a habit of getting bigger. Company size is determined by market value (the stock price multiplied by the number of outstanding shares). Midcaps range from \$2 billion to \$10 billion, small caps from \$300 million to \$2 billion.

Growth stocks versus value stocks, technology and healthcare are well represented in our stock portfolios. Those sectors have had a bumpy ride over the last twelve months and explains why our twelve month performance numbers are lower than a composite index fund like Vanguard's Total US Stock Market. As the chart shows for all the longer periods our funds beat the index both on overall average and each individual size category. The healthcare industry is

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US Stocks	Qtr	1 yr	3 yr	5 yr	10 yr	15 yr
Large Cap	2.8	5.4	17.1	11.3	15.2	10.9
Mid Cap	2.4	2.7	19.8	12.3	17.5	10.9
Small Cap	7.2	7.7	19.6	12.9	17.6	12.0
Average	4.1	5.3	18.9	12.2	16.8	11.3
VG Stock Mkt Index	4.1	9.20	15.1	10.1	14.6	8.9

Mutual Fund Categories	Quarter Return	Average Annual Percentage Returns Through June 30, 2019				
		1 Year	3 Years	5 Years	10 Years	15 Years
Short Term Bonds	1.8	5.3	1.9	1.9	2.6	3.0
Intermediate Term Bonds	3.2	8.1	3.1	3.1	5.2	4.9
US Diversified Stocks	4.1	6.8	18.1	11.9	16.1	11.1
Healthcare Stocks	1.1	9.4	11.2	10.6	17.5	12.7
Foreign Stocks	2.7	0.0	13.1	5.4	10.7	8.7

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again under attack but that's nothing new. The Affordable Care Act was weakened by the 2017 removal of penalties for the non-compliant. High drug costs are a hot political potato but that was true in the presidential campaigns of 2016 and not much has come of it. Healthcare services aren't going away, especially as the population ages. CIM has gradually reduced our portfolio overweight of healthcare by adding to the Wellington fund. Healthcare has served us well with the 10 and 15 year performances leading the pack as shown on the chart on page one.

Foreign Stocks

As has been noted here before, US stocks have outperformed foreign stocks since 2008, i.e. the Great Recession. The foreign index MSCI has been outperformed by a similar US index 65% of the last 40 quarters. The non US economy is now 40% of the global economy so we won't be diversified if we don't invest internationally. Our foreign funds have returned 10.7% over the last ten years, and that's not chopped liver.

Bonds

In the last newsletter I noted that interest rates are not expected to move higher for sometime. Now the Federal Reserve is indicating they very well may go down with a possible cut as soon as this month. The market has already priced in lower rates, so the value of our bonds have gone up. That explains the average +3.1% market value increase for the quarter. The last twelve month average is +7.7% because bonds also got a boost from the investor scramble to safety as a result of stocks tanking in the last quarter of 2018. The +7.7% is better than we have seen from bonds for some time. In the long run bonds do better if rates are higher, but in the short term they do better when rates go lower. If I had a vote it would be to raise interest rates to normal. They have been abnormally low since 2008. The continued low rates on bank accounts is unfair to those millions of people who don't want to invest in the financial markets. It's understood that more risk means more return, but I think we have too much of that. The Federal Reserve's policy is pro business and while that benefits everybody (assuming it works) it leaves some folks behind, particularly lower income savers. What are normal interest rates is not clear, because inflation has been running historically low. It's not surprising that lower inflation leads to lower rates and vice versa.

Annual Returns Intermediate Bonds	Qtr	1 yr	3 yrs	5 yrs	10 yrs	15 yrs
Corporate	3.4	9.5	3.0	3.5	5.7	5.1
Treasury	2.9	7.7	1.2	2.4	3.2	4.1
Treas Inflation Protected	2.9	4.7	1.9	1.6	3.5	3.9
High-Yield Corporate	3.2	8.9	7.0	4.7	8.3	6.4
Bonds vs. Stocks: Balanced Funds With Opposing Allocations						
Wellesley 65% bonds	3.8	10.2	6.5	5.8	8.8	7.1
Wellington 65% stocks	3.9	10.4	9.8	7.5	10.7	8.2

Looking Ahead

You may have heard that it's not a good idea to pay attention to short term ups and downs of the financial markets. It's true now more than usual. Presidential tweets abound and are clearly intended to let his Chinese counterpart know how adamant he is about China changing its trade policies. Cabinet members and trading reps make comments as well, although usually not as pointed as those of the President. Intentional or not, it can't be a surprise to the Administration that those comments impact the global markets. One day we're told it looks bleak and new tariffs are about to be implemented. The next day we hear negotiations are back on. We are better informed by monitoring Chinese announcements and actions. They are generally more consistent. In early June, apparently to make sure the Chinese public is on their side, China starting running old anti-US movies on the state TV channels. In China that's really the only kind of channels they have. The Trump administration is convinced that a tough approach is needed to stop other countries from taking advantage of the US. If there are indications that approach is seriously impacting our economy, I would look for it to soften as the 2020 election gets closer. That's what I think will happen, and I expect that's what foreign governments think too.

At their all time highs, US stocks are not cheap. There are hints the US economy is slowing and clear indications that global markets already have. Corporate earnings have flattened. The markets have priced in several Federal Reserve interest rate cuts, which confirms expectations of a slowdown and perhaps a recession in 2020. We are overdue for a recession. They are common and nothing to get excited about.

Reporter's Roundup

The Ravages of Inflation:

If you are like me you spend a lot of your time watching the Amos and Andy show on You Tube. In the 1951 episode when Andy paid \$375 for his fiancée's dental work, like me you may have wondered how much would that be in today's dollars. The answer is \$3,695. Holy mackerel, Andy! No wonder Andy was upset when she ran off with her old boyfriend. In The Philadelphians (1959) Paul Newman's boss (over the phone) tells Paul that the potential client sitting across from him is worth about 100 million dollars. Today that would be 860 million. No wonder Paul then stopped ignoring the woman's chihuahua and started hugging and kissing it. In 1861 for \$300 you could have someone take your place instead of fighting in the Civil War. If there was a draft today you would be looking at \$9,300 and jail time. Social Security pays a surviving spouse the sum of \$255. Why such a paltry sum? Because the \$255 dates to 1935 and would be \$4,800, in today's dollars, probably almost enough to pay for a cremation. But here's the problem. Social Security still pays just \$255.

So Much for Buy/Sell Signals:

There is a popular market timing strategy that calls for selling when the S&P 500 index drops below the average of both its last 50 and last 200 days of closings. Then buy back in when it gets back above both. In recent declines the S&P has come close to meeting the sell marks. Dan Weiner (Independent Adviser for Vanguard Investors) says not so fast. It's true that strategy gave a sell signal in late 2007, nine months before Lehman brothers went under. But it also gave no fewer than 8 signals in the prior five months that proved to be in the wrong direction. So at some point you probably would have stopped paying attention. But if you stayed with it, you then finally got a buy back in signal on June 1, 2009. Would you have responded to it, or would you have wondered if you already missed the rally that started in March. In any case, over the next ten years you would have gotten 37 more signals. If you responded to them your return would have been 65%. Over that period the S&P gained 165%. The bottom line: don't try to time the market.

The Odds and Costs of Long Term Care:

A recent Wall Street Journal article by Glenn Ruffenach summarized the results of government studies on the cost of long term care. According to the research 63% of us will spend zero on long term care. 17% will spend an average of \$32,000 and 12% an average of \$155,000. An unfortunate 8% will spend more than \$250,000. Those results are consistent with studies from 20 years ago, which concluded that two thirds of us will spend little or no time in a nursing home and 9% will spend over 5 years. To deal with the cost, Ruffenach lists these options: long term care insurance, life insurance, annuities, reverse mortgages, continuing care communities, veteran benefits and self-insurance. Not a particularly appealing list of choices. With life insurance, he is referring to the cash value of a whole life policy. Whole life and annuities are expensive, complicated and restrictive. Long term care insurance is good if you can get accepted, but the insurance companies keep raising the premiums. A continuing care community can be a good choice for reasons beyond finances, but paying the high cost of a life care contract is, to an extent, a capitulation to the worst case scenario. For many of us serious consideration should be given to self-insurance with either or both a reverse mortgage and Medicaid as backup.



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Investment Management &
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Harry McCullough, CPA, CFP®
200 Locust Street, Ste. 3A
Philadelphia, PA 19106
harry@cimontheweb.com
Phone 610.580.5554



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Associate Advisers

Michael C. Collins, CPA, CFP®
Brian A. Collins, CPA, CFP®
610-566-4760

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Q & A

Q: I'm not getting any younger. Can you point me to a good article on how to plan to have my finances handled after I start to "lose it"?

A: Sure. Google *kitces diminished capacity*. If you can't find it CIM can send you a copy. One thing you can be sure of is if it's an article by Mike Kitces the subject is covered thoroughly. Here's CIM's take-aways for the 17 page article.

Mike writes that a common approach is to open a joint account with a trusted person (TP). A joint account can be risky because the money in it belongs to whoever gets to it first, even including in some cases, a TP's creditors. At your death the account belongs to the TP, with only ethical not legal strings attached. If you go with a joint account, be sure your TP is worthy of the title. On a case by case basis, I think a joint account is a good idea. Payments to estate or account beneficiaries can be tied up for months, so it is a practical solution for how to pay final expenses and taxes.

Especially for larger amounts, a durable Power of Attorney is a better option. The TP does not have ownership and is required by law to use the funds in your best interest. For Vanguard accounts you will want to use their Agent Authorization forms. The authorization is durable, which means it remains in effect even if you have diminished capacity. When you die the authorization ends.

A Revocable Living Trust is Mike's third option. You will want a lawyer to set it up. It can not be used for tax deferred accounts like IRA's because the funds would be immediately taxed. It's also not practical to put all of your assets into a trust. When you are incapacitated or die, the TP trustee is responsible to see that the terms of the trust are met, the same as an executor would be for your will.

Even though there's no easy answer for any of this, it's not a good idea to procrastinate. Once deemed incapacitated you will not be able to set up a POA, or make a will, etc.

Here's my suggestion. Have more than one TP. Its good to have a backup. Discuss how they would go about looking out for your well being. If they have financial advisors, see if either is someone you would be comfortable with as your advisor. If yes, then consider moving your accounts to him/her. If you don't like either advisor or the TP's have no advisers, then ask the TP's to meet with yours and see how that goes. The goal is to get your TP's aligned with a trusted advisor.

This topic is very important and potentially complex, so you may want to talk it through with your CIM rep.

Submit your questions at CIMontheweb.com.