EVENSKY & KATZ / FOLDES FINANCIAL

CELEBRATING 35 YEARS OF WEALTH MANAGEMENT

NEWSLETTER VOLUME 14, NO. 4 | AUGUST 2021

Dear Reader:

Every now and then I figure it's time to recap some earlier material for newcomers to my NewsLetter, so…

- Here is a copy of my original NewsLetter from August 2007. If you've seen it before (or don't care) feel free to skip. As you'll read in the intro, my NewsLetter was originally for professionals but over the years it's evolved into one for clients and friends.
- You can get a free electronic version of my little book, Hello Harold, on Amazon at https://www.amazon.com/Hello-Harold-Veteran-Financial-Investor-ebook/dp/B019G0SSJ4. If you'd like a paperback copy, just let our office know.

MY HOBBY

I say wines are my hobby but that's really just an excuse to drink them. Good news is there is a lot available, even in the U.S.

1 - Number of millions of acres of vineyard planted in the U.S. as of 2020. California claims the majority with 620,000 acres, followed by Washington State with 60,000 acres. Oregon has 37,000 acres, and finally, New York has 35,000 acres. Interestingly, 20,000 acres of those grapes in New York are not made into wine, but rather grape juice, jellies, and jams.

RENT

"You want to look younger? Rent smaller children." –Phyllis Diller

AMAZING!

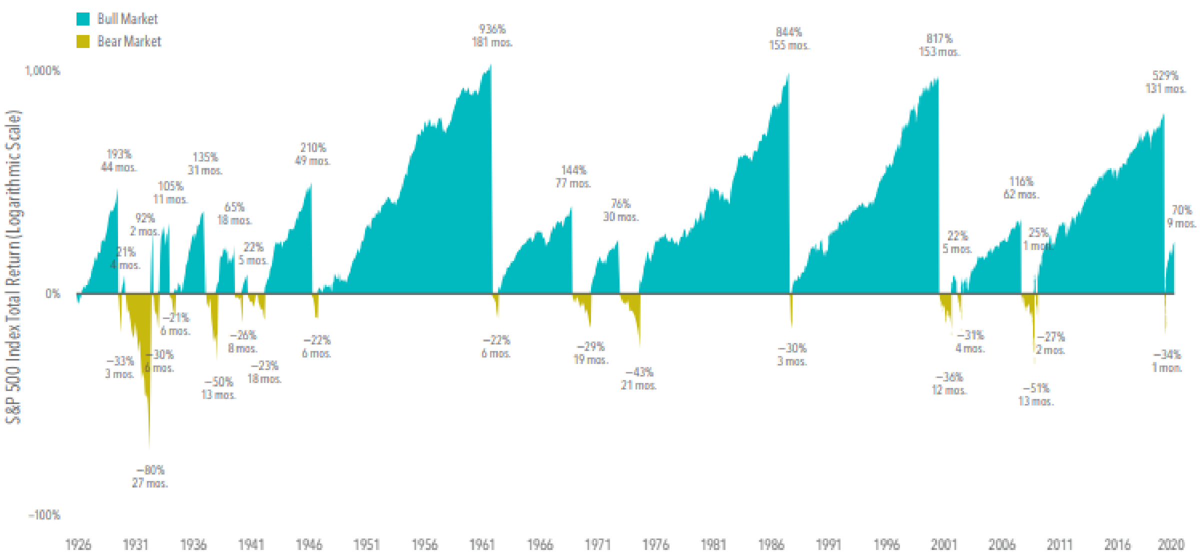
This virtual tour of the Sistine Chapel is incredible. To view every part of Michelangelo's masterpiece, just click and drag your arrow in the direction you wish to see.

Click here: Sistine Chapel

PERSPECTIVE

From DFA

S&P 500 INDEX TOTAL RETURNS
January 1926–December 2020



Stock returns are volatile, but nearly a century of bull and bear markets shows that the good times have outshined the bad times.

- From 1926 through 2020, the S&P 500 Index experienced 17 bear markets, or a fall of at least 20% from a previous peak. The declines ranged from –21% to –80% across an average length of around 10 months.
- On the upside, there were 18 bull markets, or gains of at least 20% from a previous trough. They averaged 54 months in length, and advances ranged from 21% to 936%.
- When the bull and bear markets are viewed together, it's clear equities have rewarded disciplined investors.

The stock market's ups and downs are unpredictable, but history supports an expectation of positive returns over the long term. For the best shot at the benefits the market can offer, stay the course.

MORE PERSPECTIVE: PATIENCE PAYS

As my readers know, I'm not a big fan of the Motley Fool; however, they deserve kudos for their July article "If You Invested $10,000 Just Before the Last 3 Market Crashes, Here's How Much You'd Have Today." As the tag line says "As a long-term investor, staying fully invested through a stock market crash is probably your best bet." The article backs up this good advice with two tables.

Here's what would've happened if you invested $10,000 at the beginning of the year before the last three stock market crashes.

Crash	Year(s)	Percentage Loss	Percentage Gain Since	Value Today
Dot-com	2000-2002	38%	214%	$31,440
Great Recession	2008	37%	218%	$31,814
Coronavirus	2020	34%	34%	$13,460

The table below shows how $10,000 invested on Jan. 2, 2000, would've grown by Dec. 31, 2020, if fully invested, versus missing some of the best days of the recovery. During this period of time, there were about 5,000 trading days.

	Average Annual Rate of Return (Decline)	Ending Value
Fully invested	7.47%	$42,231
Missed best 10 days	3.35%	$19,347
Missed best 20 days	0.69%	$11,474

Missed best 30 days	(1.49%)	$7,400
Missed best 40 days	(3.44%)	$4,969
Missed best 50 days	(5.21%)	$3,430
Missed best 60 days	(6.81%)	$2,441

DATA SOURCE: JPMORGAN

If You Invested $10,000 Just Before the Last 3 Market Crashes, Here's How Much You'd Have Today | The Motley Fool

And in case you're asking yourself why would I miss the best days? The answer is, the best days typically occur not long after the worst days, just when you've decided to sit on the sideline for a while. As an AAII paper noted:

How close are the best and worst days? Very. As of year-end 2019, six of the best days occurred within two weeks of the worst days – but often the spread is much closer than that. Through April month end 2020, we've increased the streak to seven with five of those best days occurring within just one week of a worst day.

Https://aaiila.org/wp-content/uploads/2020/05/tuchman-best-and-worst-days.pdf

WHY CRYPTO IS A RISKY INVESTMENT STRATEGY

As readers of my NewsLetter already know, I'm not a big fan of Crypto, so I thought I'd share the thoughts of an independent and very credible source.

Below is a link to an excellent interview with Andy Serwer, Yahoo Finance's Editor-in-Chief

https://finance.yahoo.com/video/why-crypto-risky-investment-strategy-153818212.html?contentType=VIDEO

I WAS A SOPHOMORE

I AM A MULTI-TRILLIONAIRE. REALLY!

Food for thought. Excerpts from my friend Professor Sid Mitra's truly excellent blog.

Floating in Stratosphere

Early in 1922, when I lived in Germany, the German Papiermark—the currency of the Weimar Republic—was valued at around 200 Marks to the U.S. dollar. By November 1923, that figure had risen to a whopping 4,200,000,000,000 Marks to the U.S. dollar. Put another way, even though I had only $1.00 in my billfold, that day I was a multi-trillionaire.

By the way, I neglected to mention one little detail. In 1922 I was a German only in my previous life because I wasn't born as Sid Mittra until 1930, so, technically, I cannot claim to have ever had the coveted title of multi-trillionaire. Oh well, I hope you will disregard this fact as a minor technicality.

Back Down to Earth

Rosie Parker, a middle income housewife, is extremely pleased with her bank. She can't say enough about the people who work there. What especially pleases Rosie is that in June 1980 the bank generously offered her an unbelievably high interest rate of 15.5% on her money market savings account. However, during the same month the inflation rate was 14.4%, meaning that Rosie's money market account interest rate was an inflation-adjusted rate of only 1.1%. None of that mattered to her as she continued to gloat over her high money market account return.

Rubin Torch, Rosie's friend, had a different experience. In February 1982 Rubin's bank offered him a 30-year mortgage at a rate of 17.48%, a rate so high that he gave up the hope of ever buying a home. The bank's mortgage officer tried to explain to him that the mortgage rate reflected the 15% inflation rate plaguing the economy, but this explanation did not console Rubin.

The resulting question is this: How could two people hold diametrically opposite views on how the economy was treating them at about the same time? The answer, of course, lies in the fact that each of them was on opposite sides in a high inflation scenario. While savers in the 1980s were offered seemingly high interest rates to compensate for the prevailing inflation, borrowers, like mortgage applicants, were charged high rates of interest to compensate the lenders for the high interest rates they were paying the savers. In short, a high rate of inflation is bad for both savers and borrowers.

WHERE ARE YOU NOW?

[This Is The Average Net Worth Of People Your Age - 2021 (wealthgang.com)]

AGE	NET WORTH	
	MEDIAN	AVERAGE
<35	$13,900	$76,300
35-44	$91,300	$436,200
45-54	$168,600	$833,200
55-64	$212,500	$1,175,900
65-74	$266,400	$1,217,700
>75	$254,800	$977,600

MORE PERSPECTIVE

1. Eat whatever you like because you will still DIE.
2. The inventor of the treadmill died at the age of 54.
3. The inventor of gymnastics died at the age of 57.
4. The world bodybuilding champion died at the age of 41.
5. The best footballer in the world, Maradona, died at the age of 60.
6. Jim Fix who popularized jogging died while jogging at 52.

BUT

1. The KFC inventor died at 94.
2. Inventor of the Nutella brand died at the age of 88.
3. Imagine, cigarette maker Winston died at the age of 102.
4. The inventor of opium died at the age of 116 in an earthquake.
5. Hennessey inventor died at 98.

CHURCH LADIES WITH TYPEWRITERS

They're back! Those wonderful Church Bulletins! Thank goodness for the church ladies with typewriters. These sentences actually appeared in church bulletins or were announced at church services:

- The Fasting & Prayer Conference includes meals.

- Scouts are saving aluminum cans, bottles and other items to be recycled. Proceeds will be used to cripple children.

- Ladies, don't forget the rummage sale. It's a chance to get rid of those things not worth keeping around the house. Bring your husbands.

- Don't let worry kill you off – let the Church help.

- Miss Charlene Mason sang 'I Will Not Pass This Way Again,' giving obvious pleasure to the congregation.

- Irving Benson and Jessie Carter were married on October 24 in the church. So ends a friendship that began in their school days.

- A bean supper will be held on Tuesday evening in the church hall. Music will follow.

- Pot-luck supper Sunday at 5:00 PM – prayer and medication to follow.
- Low Self Esteem Support Group will meet Thursday at 7 PM. Please use the back door.
- The eighth-graders will be presenting Shakespeare's Hamlet in the Church basement Friday at 7 PM. The congregation is invited to attend this tragedy.
- Weight Watchers will meet at 7 PM at the First Presbyterian Church. Please use large double door at the side entrance.

GET DIVIDENDS EVERY MONTH

"One way for income-hungry investors to keep cash flowing is to assemble a portfolio that shells out dividends every month."

As readers of my NewsLetter know, I have an issue with the concept of an "Income" portfolio; i.e., dividend and interest portfolios versus total return, something I refer to as the "Myth of dividends and interest." Kiplinger (a wonderful publication that I obviously don't always agree with) recently published an article promoting the ever popular "Income Portfolio." In summary, "The idea is to assemble 12 stocks with alternating distribution dates, so you never wait long for cash." The article suggested 12 different stocks for this portfolio. I decided to take a look at the first one, Physicians Realty Trust (DOC).

Indeed, as the article suggested, Physicians has been paying a fairly consistent dividend of approximately 5% (a five-year average of 5.14%). Unfortunately, that's only part of the story. Looking at the total return of Physicians, I found a somewhat different picture.

		1-YEAR*	3-YEAR*	5-YEAR*
Physicians Realty Trust		35%	9%	3%
Sector	REIT - Healthcare Facilities	50%	12%	5%
Index	Morningstar U.S. Markets	61%	17%	17%

* March 31, 2021

Kiplinger's Personal Finance 6/2020

And one more from The Motley Fools.

These Ultra-High-Yield Dividend Stocks Can Double Your Money in Under a Decade

With yields ranging from 7.7% to 9.5%, these income superstars are real-life ATMs.

Annaly Capital Management: 9.5% dividend yield

For much of the past decade, mortgage real estate investment trusts (REITs) like Annaly Capital Management (NYSE:NLY) have received little or no love on Wall Street. That's about to change, and it's going to help make income-seeking investors quite a bit of money.

Looking at total return

		1-YEAR*	3-YEAR*	5-YEAR*	10 YEAR*
Annaly Capital Management		55%	8.8%	9.2%	5.3%
Sector	REIT - Mortgage	55%	4%	9%	7%%
Index	Morningstar U.S. Markets	37%	17%	17%	15%

* June 7, 2021

These Ultra-High-Yield Dividend Stocks Can Double Your Money in Under a Decade | The Motley Fool

The obvious moral is focusing solely on current income is myopic. The only meaningful long-term measure is total return.

If you have trouble getting to sleep and would like to read a little more about this, drop us a note and we'll send you an excerpt from my book Wealth Management that I wrote about the myth in 1997.

A GOOD YEAR FOR BILLIONAIRES

Another piece from Kiplinger's June issue.

The number of uber-wealthy individuals spiked by 30% during the pandemic, to 2,755, according to *Forbes*'s latest ranking. The top six are below, with their estimated net worth last year and as of April 6 this year.

Billionaires	Net worth, in billions 2020	2021
Jeff Bezos, Amazon CEO	$113	$177
Elon Musk, Tesla CEO	25	151
Bernard Arnault, overseer of luxury brand empire LVMH	76	150
Bill Gates, Microsoft cofounder	98	124
Mark Zuckerberg, Facebook CEO	54	97
Warren Buffett, Berkshire Hathaway CEO	68	96

SOURCE: Forbes.com

EVEN MORE FROM KIPLINGER'S

Data Security

How Long Does It Take to Hack Passwords?

Hackers can crack weak passwords by using programs that run through various possibilities until they hit the right one. The longer your password and the more types of characters it combines, the less likely this method will succeed. See how long it would take a fraudster to figure out your password based on its length and composition.

Number of characters	Numbers only	Lowercase letters	Upper and lowercase letters	Numbers, upper and lowercase letters	Numbers, upper and lowercase letters, symbols
8	Instantly	5 seconds	22 minutes	1 hour	8 hours
9	Instantly	2 minutes	19 hours	3 days	3 weeks
10	Instantly	58 minutes	1 month	7 months	5 years
11	2 seconds	1 day	5 years	41 years	400 years
12	25 seconds	3 weeks	300 years	2k years	34k years
13	4 minutes	1 year	16k years	100k years	2m years

SOURCE: Hive Systems, with data from www.howsecureismypassword.net

Told you I liked the publication.

USELESS “INFORMATION”

From a recent WealthManagement.

The 20 ETFs with Greatest Inflows in the Past Month. One month! Give me a break!! I assume WealthManagement was desperate for copy.

The 20 ETFs with Greatest Inflows in the Past Month (wealthmanagement.com)

LOSE AN ARM – OR TWO

The Least Informed Investors Turn to Margin the Most

A new academic study on margin trading revealed which types of retail investors appear most likely to lose an arm — or two.

“Our findings show that investors with higher investment literacy are less likely to buy on margin, while investors with higher overconfidence in investment literacy are more likely to buy on margin, and that risk tolerance is positively related to the likelihood of buying on margin,” wrote three professors in a paper titled, “The Effect of Investment Literacy on the Likelihood of Retail Investor Margin Trading and Having a Margin Call.”

I assume these are some of the same investors making their investment decisions based on “inflows for the past month.”

The Effect of Investment Literacy on the Likelihood of Retail Investor Margin Trading and Having a Margin Call by Hohyun Kim, Kyoung Tae Kim, Sherman D. Hanna :: SSRN

FOOD FOR THOUGHT

My friend Monty forwarded me the following article from Scott Burns. I’d not seen any of Scott’s articles in quite a while but he’s always a thoughtful commentator and this one is well worth sharing.

The Chorus of Worriers convenes daily, as it has for years. A market decline is coming, they say. Maybe a big one. Likely soon. Perhaps, like the long-awaited California earthquake, it will be The Big One.

The worriers aren't fools.

They have good reason to be concerned. Use almost any common metric, and stocks are overpriced. All stocks. Everywhere.

Two popular measures tell us a lot. The Shiller Index, for instance, tells us that stocks are currently priced at historic, hyperbolic levels. Right up there with 1929 or the Great Internet Bubble at the turn of the century.

Another metric, regularly used by the late indexing visionary Jack Bogle, tells us that future stock prices will be the sum of three things: dividend yield, earnings growth and the change in price-to-earnings multiple.

Even if you assume that corporate earnings will continue to grow at their historical average pace, future returns will definitely be reduced by today's low dividend yield. And it's far more likely that the P/E multiple will be lower in the future, not higher. Basically, stocks are swimming against the tide.

The only possible conclusion, many believe, is that it is time to sell.

I beg to differ, even though I agree with the basic analysis: Stocks are overvalued.

Being overvalued doesn't keep stocks from rising further. Investment manager Jeremy Grantham was famously correct about the excesses of the internet bubble. But he was correct years before the bubble burst. He missed a lot of opportunity.

So what's a worrywart to do?

One option is to take some comfort in the long-term return of stocks relative to other investments by examining the odds of having a positive return over different periods. To do this, I asked the researchers at Morningstar to develop figures for the return on large company stocks. It would be using what most consider to be the definitive database, the original Roger Ibbotson data beginning in 1926 with its software, Morningstar Direct.

I asked for figures for periods of one to 10 years in increments of one year, then in increments of five years out to 35 years. Today, even if you are looking at 35-year investing periods, there are 66 samples, albeit with substantial overlap.

In addition to determining what the odds were of having a positive return for any period, I also asked the odds of beating inflation and the odds of beating intermediate-term government bonds.

The results encourage buy-and-hold, long-term investing.

Here are some [excerpts] of the findings.

- In any single year, large company stocks are a reasonable bet. They have a 73.7% chance of having a positive return, a 68.4% chance of beating inflation and a 65.3% chance of beating intermediate long-term government bonds.
- In 7 to 10 years, the odds fluctuate modestly, improving slightly for a 10 year investment, there is a 95.3% probability of a positive return, an 88.4% chance the return will beat inflation and an 82.6% chance the return will be higher than intermediate government bonds.
- In 15 to 20 years, large-company stocks prevail. The returns are positive and beat inflation 100% of the time at all 20 year periods. And they beat intermediate bonds 98.7% of the time.
- In 25 years or longer large-company stocks of positive returns beat inflation return more than intermediate government bonds 100% of the time.

What these figures tell us is that unless you know exactly when stocks will decline, the best bet is to hold on and do your best to avoid any need to sell stocks when prices are lower.

How do you do that?

You can't do it perfectly. But you can put the odds in your favor by holding enough money in cash, short-term investments and intermediate-term bonds to cover your needed spending for five or more years. If you are spending at a traditional safe withdrawal rate of about 4%, that means 20% to 40% of your portfolio.

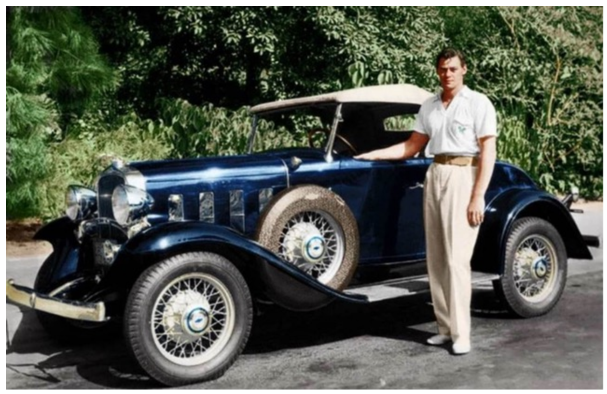
[Scott Burns: What history tells us about stock market returns (dallasnews.com)]

FAMOUS CARS AND FAMOUS PEOPLE

1922 Lincoln with Edsel and Eleanor Ford

1927 Al Jolson and his Cadillac touring car

1931 Lincoln with John Wayne



1932 Chevrolet Johnny Weissmuller

1932 Packard Twin Six 905 Coup Roadster with Clark Gable

1937 Cord 810 Phaeton with Cecil B. Demille

1941 Cadillac Series 61 and Bette Davis

1935 Cadillac with Marlene Dietrich

1953 Jaguar Mark VII with Marilyn Monroe

EVER BEEN HOSPITALIZED?

From my friend, Judy. You'll relate…

A sweet grandmother telephoned St. Joseph's Hospital.

She timidly asked, "Is it possible to speak to someone who can tell me how a patient is doing?"

The operator said, "I'll be glad to help, dear. What's the name and room number of the patient?"

The grandmother in her weak, tremulous voice said, "Norma Findlay, Room 302."

The operator replied, "Let me put you on hold while I check with the nurse's station for that room." After a few minutes, the operator returned to the phone and said, "I have good news. Her nurse just told me that Norma is doing well. Her blood pressure is fine; her blood work just came back normal and her physician, Dr. Cohen, has scheduled her to be discharged tomorrow."

The grandmother said, "Thank you. That's wonderful. I was so worried. God bless you for the good news."

The operator replied, "You're more than welcome. Is Norma your daughter?"

The grandmother said, "No, I'm Norma Findlay in Room 302. No one tells me shit."

ULTRA-HIGH-YIELD DIVIDEND STOCKS THAT'LL MAKE YOU RICH

More on Annaly Capital. "Arguably one of the safest ways to build wealth over the long run is to buy and hold the premier name among mortgage real estate investment trusts (REIT), Annaly Capital Management. Annaly has paid out over $20 billion in dividends since its inception over two decades ago, and it's averaged a roughly 10% yield over the past 20 years."
– Motley Fool

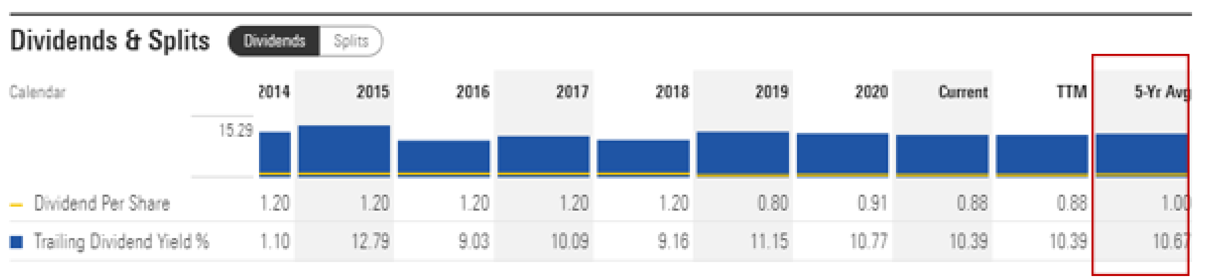
One of my readers asked why I was picking on the Motley Fool. It's not really my intention to "pick on" anyone; however, it is my goal to educate my readers regarding what I consider, all to often, to be "financial pornography," i.e., financial news and tips that purport to provide special insight to winning market moves that are at best misleading and at worst dangerous to the readers' financial health. A major red flag is a headline that reads "That'll Make You Rich" in large font, bold.

Annaly Capital is a good example. It seems to be a well-managed firm with a long history of high dividend paying REITs. Unfortunately, focusing only on the dividend payout is like focusing on the trees and missing the forest. For investors, the focus needs to be on Total Return; i.e., what do you earn based on the combination of interest, dividends and capital gains (or losses).

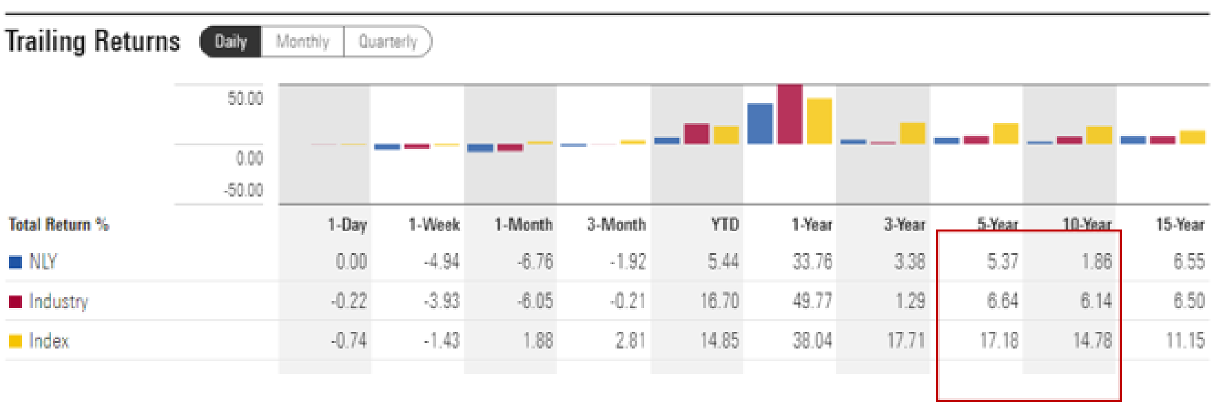
Unlike fund performance, it's a bit difficult to compare an individual stock's total return to market indexes (distinguishing between price returns and total returns). Using data from Morningstar and Annaly provides enough information to suggest that, based on total return, NLY may be an OK investment but, compared to the broad market it's a poor alternative. Add to that the interest rate risk of a mortgage REIT at a time of historically low interest rates suggests it is unlikely to make you rich and it might even make you a bit poorer.

ANNALY CAPITAL MANAGEMENT (NLY)

Data from Morningstar



Calendar	2014	2015	2016	2017	2018	2019	2020	Current	TTM	5-Yr Avg
Dividend Per Share	1.20	1.20	1.20	1.20	1.20	0.80	0.91	0.88	0.88	1.00
Trailing Dividend Yield %	1.10	12.79	9.03	10.09	9.16	11.15	10.77	10.39	10.39	10.67



Total Return %	1-Day	1-Week	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
NLY	0.00	-4.94	-6.76	-1.92	5.44	33.76	3.38	5.37	1.86	6.55
Industry	-0.22	-3.93	-6.05	-0.21	16.70	49.77	1.29	6.64	6.14	6.50
Index	-0.74	-1.43	1.88	2.81	14.85	38.04	17.71	17.18	14.78	11.15

Industry – Mortgage REITs; Index – Morningstar US Market

Data from Y Charts, our firm analytics

	Annually	SPXTR (S&P 500 Total Return Index)
5Yr	5.1%	17.8%
10Yr	4.2%	15.0%

Data from Annaly

YTD 1 Yr 3 Yr
5 Yr 10 Yr

Jul 15, 2016 Jul 15, 2021 Go

Total Return for Selected Period

Shares	Share Price	Dividend	Total Return	Annualized Total Return
NYSE:NLY	-21.01%	+59.93%	+38.92%	+6.79%

Total Return for Preconfigured Period, %

Shares	Year-To-Date	1 Year	3 Years	5 Years	7 Years	10 Years
NYSE:NLY	+5.33%	+34.72%	+16.00%	+39.87%	+67.61%	+51.60%

Average Annualised Total Return Based on Last Closing Price, %

Shares	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
NYSE:NLY	+34.18%	+4.56%	+6.46%	+7.16%	+3.75%	+2.99%

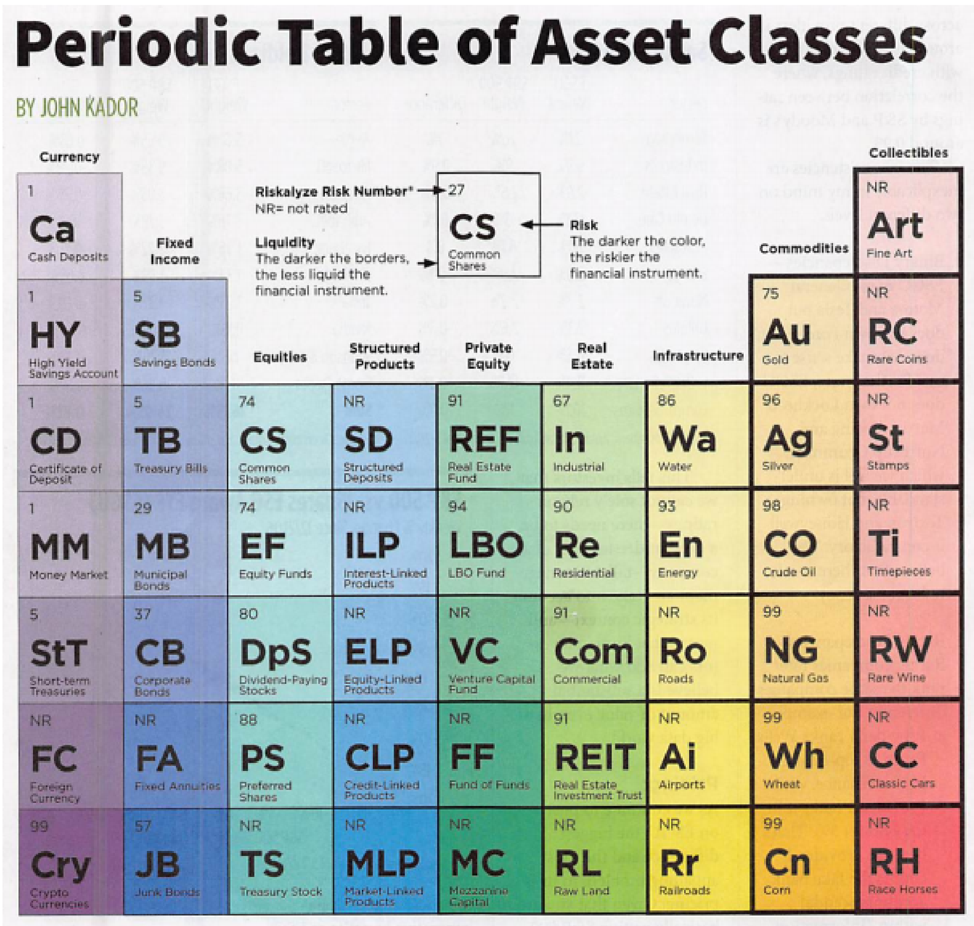
Return difference a function of slightly differing return periods

[5 Ultra-High-Yield Dividend Stocks That'll Make You Rich | The Motley Fool]

PERIODIC TABLE OF RISK

Not sure how this was developed but it's very clever. Interesting to see it shows dividend Paying Stocks and Preferreds a bit riskier than Equity funds. Don't think I'd disagree.

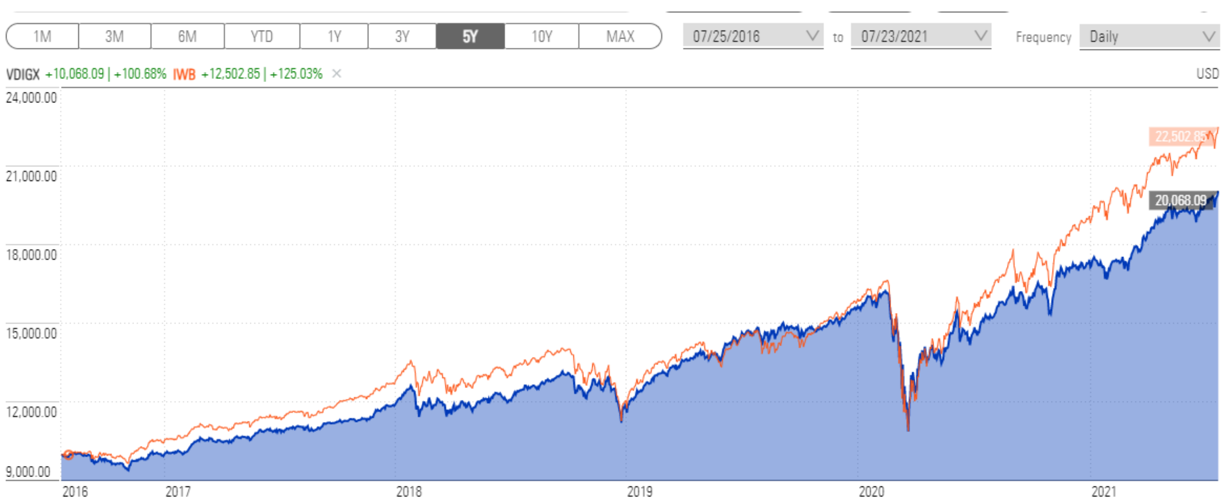
The article cautions, "In any given year, the individual financial instruments within any asset class may shift up or down. The relative positions of the instruments within the asset classes display remarkable consistency, however."



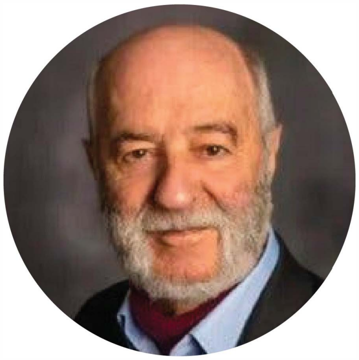
[Periodic Table of Asset Classes | Wealth Management]

LESSONS FROM TOP INVESTING GURUS

In an article in Kiplinger's Personal Finance, the columnist wrote "So, with markets as unpredictable, volatile and uncertain as ever in the post-pandemic world, we turned to some heavy-weights for advice on key personal finance and investment subjects." The commentators are indeed heavy-weights and the advice generally solid; however, once again it demonstrates good advice doesn't necessarily help in beating the market. For example, I looked at Donald Kilbride's $51.3 billion Vanguard Dividend Growth fund and compared its performance to IWB (the iShares Russell 1000), the benchmark used by Morningstar. Here's the result.



[Lessons from Top Investing Gurus | Kiplinger]



Harold Evensky

FOUNDER

EVENSKY & KATZ / FOLDES FINANCIAL WEALTH MANAGEMENT

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