



Financial, Estate & Employee Benefits Planning

With the year half over, it is time once again to put a few words down on paper regarding the financial markets and how (if at all) they might affect your personal financial planning.

Megatrends out-live media cycles

One would think that the trifecta of bad news coming out of Greece, China, and Puerto Rico would have finally driven common stocks down to bear market territory. We readied the tool box of skills each of you has acquired via our Life Boat Drill training in past Bodnar White Papers on how to stay calm and focused on the long-term in a down market. But alas, it was not to be.

Like a rubber band, the market went down for a week, and then snapped right back up to Dow 18,000. BANG. Amazing. For those of you holding cash—Armageddon was delayed, once again. But stay tuned.

While the media fixated on the hat-trick of economic crises, the Federal Reserve reported (as it does every quarter) that the net worth of American households continues to grow. In fact, household net worth rose about \$1.6 trillion from January through March, soaring to an all-time high of almost \$85 trillion. This, in a country whose GDP is approximately \$18 trillion—which is roughly 22% of the world's GDP.

If you do the math, you will note that the household net worth of the United States of America exceeds the nominal annual output of the entire world. As grandpa would say: "What a country!"

Now remember, this is *net* worth. Assets minus liabilities. Assets were up considerably; real estate, stock, mutual funds, etc. But the really great news is that American households continued to pare their debt during the first quarter of 2015. (Too bad the political class refuses to read the same MEMO that American families read.)

Total U.S. household debt as a percentage of disposable income was 106.5%, compared with 107.5% in the prior quarter. This was its best level in more than 10 years. Assets went up and debt went down. What a great story. Too bad no one was writing about it.

The American household is richer than it has ever been. Home equity is rising. Debt as a share of income is reducing. And net worth -relative to its disposable income- is soaring.

This type of news can have only two effects on the media... disbelief, and for some, rage. A megatrend of unalloyed economic good will almost always be ignored. After all, who has time to study trends while the sky is falling??? For those enraged, economic growth and prosperity can only mean the manifestation of the greatest of all economic evils, inequality.

But enough of my rant. Thank you for indulging me. It's an important part of my therapy.

Optimism is the only realism

Yesterday, July 16, 2015, was the 64th publishing anniversary of *The Catcher in the Rye*, a book that introduced the world to one of the most iconic pessimists of all time: Holden Caulfield.

Today, July 17, 2015, marks a more optimistic event in world history, the 40th anniversary of the linkup in space between the American spacecraft APOLLO and the Soviet Union's SOYUZ. This gesture of understanding between the two countries was not the end of the Cold War (or even the beginning of the end), but it provided hope that maybe we could inhabit the planet with some form of mutual understanding.



The U.S. Postal Service commemorated the event by issuing a first class stamp. Note the cost: ten cents. Forty years later, a first class stamp is now 49 cents. The difference is overstating CPI inflation somewhat, but not by all that much: American living costs are up about 4.4 times since July 1975.

Veteran readers of these 'Bodnar missives' know where this is headed...

How did your family do these past 40 years? Did you, your parents, and/or grandparents hold onto your purchasing power? In order to do so, your income and capital values would have needed to rise about four and a half times- not an easy task.

What did the great companies in America and the world - the S&P 500 - do between 1975 and 2015? Did they keep pace with the rise in postal costs and inflation?

On this day in 1975, the S&P 500 Index closed at 93.63. Last night, the S&P 500 closed at 2,214 or approximately 23 times higher.



The S&P's earnings in mid-1975 were running at around eight dollars. FactSet is estimating earnings for the next 12 months to be \$125.66. For those keeping score at home, that is close to 16 times greater.

The dividend on the S&P 500 was fractionally less than \$4 in 1975, a yield of about 4.25%. That deal sounds great in retrospect, but was a tough sell in 1975 when people could invest in a 10-year Treasury with a yield of 8% (and rising fast!) instead. Fast forward to 2015, and the dividend on the S&P 500 will end up close to \$44, an increase of about 11 times the yield 40 years ago.



Holden's take on the long-term trends of the market...

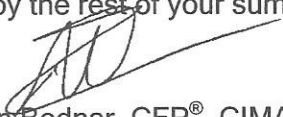
To the Holden Caulfield pessimists of the world who ignore all historical perspective when it comes to the market's long, slow, tumultuous climb upward, I say to you as he said to his classmates at Pencey Prep: "Sleep tight, ya morons!"

Drowning in a sea of negative headlines and totally bereft of any historical perspective, our countrymen are still carrying far below-average equity exposure, even after a *tripling* of equity values, or perhaps because of it. They fear that the market has gone up too much and only has one place to go from here.

Of course, no one knows for sure what market values will be tomorrow, next week, month or year. But if we use history as our guide, then we must believe that **optimism is the only realism**. And that means investing in the greatest companies in the world over long periods of time should help you and your family achieve your life goals with a sense of security.

That is what Bodnar Financial has preached for the past 27 years.

Enjoy the rest of your summer,


John Bodnar, CFP®, CIMA®
July 23, 2015

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