Eastwood
WEALTH

2021 Annual Letter

I hope this finds you and your family doing well!

Several years ago, I was in Boston for a conference and had a summer afternoon off to explore the city. Unfortunately, the Red Sox were not in town. The next best thing to going to a game was to tour Fenway Park. That's exactly what I did. When I walked in the stadium, I instantly felt my energy shift and knew that I was entering a place of richness that was as American as apple pie. In fact, the Red Sox were originally named the Americans during the first 11 years of their existence.

The Red Sox were founded in 1901 and initially played at a stadium named Huntington Avenue Grounds. The ballpark was the site of the first World Series game and the first perfect game, thrown by Hall of Famer Cy Young on May 5, 1904. Huntington Avenue Grounds was about one mile from where Fenway Park is today. In 1954, the Cabot Center at Northeastern University was built on top of the old field. Today, outside of the Cabot Center, a bronze statue of Cy Young marks the spot where home plate or the pitcher's mound, depending on where you get your information, was once located.

Fenway Park is the oldest Major League Baseball stadium. The most notable feature is the green 37 foot, 2-inch-high wall in left field affectionately known as The Green Monster. I've shared items with you from my bucket list before and sitting atop The Green Monster for a game still hasn't been checked off. Can you imagine the bird's eye view with a bag of peanuts, your favorite beverage and singing Sweet Caroline, a Fenway tradition, during the middle of the eighth inning? I can and can't wait!

The first official game at Fenway Park was played on April 20, 1912, five days after the sinking of the Titanic in which 17 residents of Massachusetts perished. A new baseball tradition of throwing out a ceremonial first pitch was started on this day and was thrown out by Boston Mayor John Fitzgerald, the Grandfather of our 35th President, John Fitzgerald Kennedy. With 27,000 fans watching, the Red Sox beat the New York Highlanders, renamed the Yankees in 1913, 7-6 in extra innings.

On the tour, I learned that fans today still sit in wooden seats that date back to the 1930's. As I sat down in a seat and became comfortable, I heard the joyous sounds of victory and the angst of defeat from yesteryear in my mind. Those seats saw Babe Ruth play his last game at Fenway in August of 1934 and were a part of the 38-career home runs he hit while playing at the storied ballpark. I was reminded of a question I once asked an older, deeply spiritual friend of mine, "Where does energy go once a lively place has been emptied?" With wisdom and conviction, he looked at me, smiled with a nod and said, "In the wood." Ah ha! It gets absorbed in the wood. Where else would it go? I believe that our energy also gets absorbed by the people we share our time with, and it's redistributed from there indefinitely. It's something to keep in mind as we make memories with our family and friends this holiday season. Once the table has been cleared, the dishes cleaned, the presents unwrapped and the decorations taken down, the energy remains.

Amongst the green seats in the outfield, my eyes caught one lone, red seat. I asked the tour guide why that seat was different from all others. That particular seat marks the spot where the longest home run ever hit at Fenway Park landed. It was hit into the afternoon sun on June 9, 1946 by Hall of Famer Ted Williams and traveled 502 feet. A cartoon of the home run ran the next day in the Boston Globe with the caption, "Ted hit one of those homers they'll be pointing out the spot on for years to come." Touché! The blast tore a hole in the gentleman's straw hat that occupied the seat when it landed on his head having him ask the question afterwards, "How far must one sit to be safe in this park?"

Ted Williams holds the record for most home runs hit at Fenway Park with 248. He even hit a home run at his last plate appearance in Boston on September 28, 1960. During his 19-year major league career, Williams had a batting percentage of .344. This currently ranks him in the top 10 on the all-time list. He came to the plate more than 8,000 times and most impressive is his on base percentage of .482, the all-time record. This means in the almost 4,000 times Williams batted, he ended up either getting a hit, being hit, walking or having a sacrifice fly.

Ted Williams passed away on July 5, 2002. Lucky for baseball players and fans alike, he wrote a book entitled The Science of Hitting. Last year marked the 50-year anniversary of his composition. It serves as Williams's business plan on how he approached hitting a baseball which he calls in the first sentence of the book, "the single most difficult thing to do in sport." It is a step-by-step manual that is full of history, thoughts and diagrams from the master. His in-depth descriptions of what, when and how to hit a baseball are crystal clear. This coming from a man that once proclaimed that it was his goal in life to "walk down the street and have folks say 'there goes the greatest hitter who ever lived'."

My favorite diagram in The Science of Hitting is a photo of Ted Williams at home plate in his batting stance. He's wearing his white home uniform with a red pinstripe running down the leg complete with red stirrup socks that stop mid-calf. He appears as an opposing pitcher would see him from the mound. Williams batted left-handed, standing on the left side of home plate. In this full-page illustration, he breaks down the strike zone with confidence. He definitively declares the strike zone to be seven baseballs wide and 11 baseballs high. What is remarkable about the diagram is that he knew and documented his batting percentage for all 77 baseballs in the strike zone. The next piece of advice is why the book has sat on my shelf for two decades. Williams says:

"My first rule of hitting was to get a good ball to hit. I learned down to percentage points where those good balls were. The box shows my particular preferences, from what I considered my "happy zone"-where I could hit .400 or better-to the low outside corner-where the most I could hope to bat was .230. Only when the situation demands it should a hitter go for the low-percentage pitch. Since some players are better high-ball hitters than low-ball hitters, or better outside than in; each batter should work out his own set of percentages. But more important, each should learn the strike zone, because once pitchers find a batter is going to swing at bad pitches he will get nothing else."

This excerpt is analogous to life. As variety and contrast are introduced, we face decision making opportunities. The resulting consequences shape and mold our experience and affect others. If we design our life experience to get low percentage pitches on the outside corners then we'll keep getting them due to the Law of Attraction. Ultimately, we'll be forced to swing at those pitches because that's all we'll ever see. What could life look like if we consistently received and only swung at fastballs right down the sweet spot of our strike zone?

We live in a world that has order to it: crawl, walk, run; ready, aim, fire; day follows night; spring follows winter, the mighty oak lives within the acorn, the sun rises in the east and sets in the west, etc. It's orderly, attraction based and automatic. To allow this process to work in our lives, we are required to get into alignment with our desires and provide space for those desires to manifest. When we release resistance, our experience naturally unfolds without having to chase anything. No pressure, no rushing just alignment. It's a forward, confident move of purposeful intent which works everything out as it's supposed to be. One breath at a time, one foot in front of the other, one day at a time. When this path is our consistent practice, we get really close, hit or exceed our target over time. This happens just as sure as the north and south end of magnets attract one another.

Financial planning and proactive investment management follow the same protocol and highly favor the committed and those who start the process early. Like life, the steadier we are, the easier everything becomes.

With our investments, the beautiful phenomenon of compound interest creates ease if we give it space to work its magic. Two thoughts automatically come to mind when I think of compound interest and watch it in action. First, Albert Einstein said, "Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it. The second thought is from Charlie Munger, Warren Buffett's partner at Berkshire Hathaway, who famously quipped, "The first rule of compounding is to never interrupt it unnecessarily."

One of the recurring themes in our conversations has been to remain growth oriented with our investment approach whether the markets are up, down or sideways. Over time, this stance will take us to places that we would otherwise not visit. Here, specifically, is where compound interest comes into play. Depending on factors that are beyond our control, it may take years to see proof of its existence. Whether we acknowledge it or not, the principles of compounding are always working. This is why time in the market is so much more important than timing the market. As you have heard me say a million times, "Timing the market is not necessary for us to do well, we just have to be there." It's similar to boats on the water. When the tide rises, all are lifted. Again, it's orderly, attraction based and automatic.

The secret of compound interest is why you see the wealthiest people in the world own the best companies in the world through individual stocks and stock funds. The wealthiest 5% of households in the United States own 71% of all U.S. equities. The top 20% of households own 93% of all U.S. equities.1 This approach is very simple, but it's not easy. Our humanness and inability to stay the course can clutter our yellow brick road causing delays to the very freedoms we seek.

So, what do we do? We have a plan to cushion the downside and own the best companies in the world for the rest of our lives regardless of their movement and sit tight. This is how we take advantage of human ingenuity, compound interest and expansion over time. We do not get euphoric at the top, and we do not panic at the bottom. Our investment seeds produce fruit when we keep our composure and wait. My job is to keep us on this path, a path of least resistance, and help remove obstacles with proper financial planning. I also hope my conviction inspires you to take action, or inaction as described above.

Investing in the best companies in the world has never been and will never be a straight line. However, it's the straightest of lines, long-term, that protects the purchasing power of our dollars. Keeping up with the increases in cost of living and sustaining or improving upon our quality of life is why we plan, save and invest our resources. If the cost of living adjusts upward at a traditionally reasonable rate of 3% per year, one dollar today will be worth $.74 in 10 years, $.55 in 20 years and $.41 in 30 years. This is our biggest financial obstacle to overcome.

As of December 1, 2021, mainstream stocks are up more than 100% from the March 23, 2020 pandemic low. This type of exponential move is why we stay invested through the ups and downs without flinching. The National Bureau of Economic Research officially announced on July 19, 2021 that the two-month recession of March and April of 2020 had ended. It took them 15 months and an almost 100% increase in mainstream stocks to give the all clear signal. We cannot wait on greenlights from others. We have to be forward thinking and act with deliberate intention on our visions, goals and dreams understanding the best opportunities for growth, in life and investing, often present themselves when the going gets tough.

As the market advances, "experts" will continue appearing on financial media outlets calling for pullbacks and crashes. Without any liability for their guesses, they will use over exuberant language, fear tactics and a scarcity mindset while doing it. At some point, they will be right. The average annual pullback since 1980 on the S&P 500, the top 505 publicly traded companies in the United States, is 14.3%. We have not experienced this in 2021 as of December 1st. We will again though, 14.3% and more if we work our lifetime plan correctly. It's part of investing and important that we view pullbacks from a percentage standpoint rather than dollar based because the dollars get big as money compounds. When the dollars get big, our emotions come into play and can cloud our thinking. In the end, the ups have proved permanent, and the downs temporary if we stay the course.

Since World War II, the worst possible day to invest was October 9, 2007, the market peak before the financial crisis of 2008. On this day, the Dow Jones Industrial Average (DOW) peaked at 14,164 and subsequently dropped 57%, finally bottoming on March 9, 2009. I remember that time vividly. As of October 9, 2021, 14 years later to the day, the DOW was at 34,746. If reinvestment of dividends is accounted for, the DOW was 238% higher than it was on October 9, 2007. If you stayed the course, you would have enjoyed compounded results of around 9% per year even though you invested on the worst possible day since the 1940's. The perseverance of expansion is undeniable and overflows into our lives and the financial markets just the same.

Today, talk abounds about interest rates and increases in the cost of living. The interest rate on the 10-year Treasury bond is one of the main benchmarks for these conversations. The lowest yield ever recorded on the 10-year bond was .31%, set on March 8, 2020 during the throes of the pandemic. As of December 1, 2021, the rate on the 10-year bond was 1.50%, a fivefold increase of where it was in the spring of last year. For comparison purposes, the 10-year Treasury rate peaked in September of 1981 at 15.82%. Rates have been decreasing for 40 years. Typically, the next move in the financial markets is made in the opposite direction with the same velocity. This would suggest that decades into the foreseeable future could be spent with the trajectory of interest rates going up. The kicker is that interest rates and bond prices are inversely related. If rates go up, bond prices go down and vice versa. It's the see saw on the playground analogy we've talked about before. As of December 1, 2021, the bond index was down 1.29% for the year and the interest rate set by the Federal Reserve, the federal funds rate, remains at 0-.25%, roughly where it's been since December of 2008. We are just starting to see the tip of the iceberg on potential interest rate increases and, like all icebergs, 90% of it is obstructed from view.

I recently shared the following thought in our Presidents and Stocks piece that now lives on the Client Center at eastwoodwealth.com. It is worth doing so here again:

Good records pertaining to the financial markets go back to 1802, when Thomas Jefferson was President. Since then, mainstream stocks have enjoyed compounded results, before being adjusted for inflation, approaching 10% per year and bonds about half of that. At this pace since 1802, $1 invested in stocks would turn into over $1 billion and over $43,000 in bonds. Since 1802, stocks have averaged about 7% per year above increases in the cost of living, also known as inflation. Owning stocks is a way to grow our assets over time and continue living or improve upon our quality of life.

In the end, expansion is the only result historical long-term evidence supports. Everything that we know about our universe runs on this premise of abundance. The financial arena is no different. Total household net worth in America is up 47% in the last four years and up 89% in the last eight years. The total U.S. household net worth was $74.8 trillion as of 6/30/13, $96.2 trillion as of 6/30/17 and $141.7 trillion as of 6/30/21.1

The dots discussed in this letter are connectable, and the verdict is in. Our job is to know what matters most, influence what we can, stay growth oriented for the rest of our lives and pass that knowledge on to anyone that will listen. This path will positively change our family's financial tree and impact others similarly through our generosity. I am as crystal clear about the strategies laid out in this letter as Ted Williams was about how to hit a baseball.

August 19, 2021 marked the 10-year anniversary of Eastwood Wealth. Thank you for your continued confidence. The depth of my gratitude cannot be effectively communicated with words. I continue to do my life's work and am grateful for the opportunity and trust you place in me and Eastwood Wealth. I assure you that we work daily to continue to earn and keep your trust.

In celebration of our 10th birthday, we have updated our logo, our website and introduced a new mobile app for your smartphone and tablet. Our growth is a product of working with great people like you and is a continued expansion of the warmth, welcome and good cheer of us being our true, authentic selves. We have fun, and our work is so much more than just about numbers. It's about people, families, visions, goals, dreams and helping you design and create an extraordinary life beyond your wildest imagination with those you love and your favorite activities.

As always, thank you for being a part of the Eastwood Wealth family and for allowing us to be a part of yours. We hope your 2021 holiday season is the best ever and look forward to a prosperous 2022!

Best,

Tim Evans, CFP® CLTC
Founder

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1 The Federal Reserve • 2 Bloomberg Barclays

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