John M. Smartt, Jr., CPA
FINANCIAL COUNSELING & ADMINISTRATION
Registered Investment Advisor

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I. **Buy and Hold Stocks, Two Experts Comment**
II. **What Are OUR and THEIR Asset Allocations?**
III. **Vanguard Rates of Return (through June 30, 2009)**
IV. **"Fee-only" Compensation for Advisors Triumphs "Across the Pond"**
V. **Pleased to Provide Additional Disclosure**

I. Buy and Hold Stocks, Two Experts Comment

I recommend "buy and hold." This investment strategy calls for (1) determining a mix of stock, bonds, and money market balances ("asset allocation" is another term for this part of the process) suitable to your situation, your goals, (2) purchasing that mix, generally using indexed mutual funds or ETFs (exchange traded funds), and (3) holding these investments. Changes should be considered if/when your financial circumstances are changing or your goals change. Otherwise, continue to hold.

The stock market unpleasantness of both the last couple of years and the tech boom and bust around the turn of the century have led some experts/advisors to believe that buy and hold is not the best strategy. Here are excerpts of two interviews, both from the August, 2009 issue of *Kiplinger's Personal Finance Magazine*:

In the interview with John Bogle (founder of index mutual funds, CEO emeritus of The Vanguard Group):

KIPLINGER'S: DOES MARKET TIMING DESERVE ANOTHER CHANCE GIVEN THE MAGNITUDE OF THE LOSSES WE'VE SEEN RECENTLY?

BOGLE: I really don't think so. There are probably three or four times in an investor's life when the market gets so out of sync with reality that it presents an opportunity for market timing. But remember, market timing involves being right twice: You have to know when to get back in as well as when to get out. Also, our emotions tend to lead us in the wrong direction. We are usually optimistic when the market is high and pessimistic when the market is low. So the odds of being able to time the market successfully are not good. The stock market isn't a place for betting. The place for betting is called Las Vegas.

K: SO YOU'RE NOT READY TO PROCLAIM THE DEATH OF BUY-AND-HOLD INVESTING?

B: Buy and hold is never dead. Think about it this way: As a group, we are all long-term investors. There's this piece of pie, which we'll call "American business", and we stockholders all own that together. But as individuals, people trade back and forth with one another. All that trading is expensive….

…here's something else to weigh: The stock market's miserable performance over the past decade – an annualized loss of 1.7% - comes on the heels of the nifty '90s. During that decade, the S&P 500 gained an astounding 18% a year. In the 90's and the aughts, results diverged dramatically from the stock market's long-term [average] return of 10% a year. Who knows whether or when we'll see long-term, double-digit average stock returns? But if we do, despite widespread antipathy toward buy-and-hold investing, patience will be rewarded.

Jeremy Siegel (Wharton School Finance Professor and author my favorite stock market book, Stocks for the Long Run):

The short answer [regarding buy and hold] is that stocks are still the best long-term investments. As bad as the past decade has been, there have been other ten-year periods during which stocks have recorded even bigger losses. Yet over periods of 20 years or longer, stocks have never lost money, even after inflation. Including the latest bear market, stock returns have averaged 7.8% per year over the past 20 years, and 11% annually over the past 30…. After periods of sluggish returns, stocks tend to regain their *oomph.* Stock returns over the past five and ten years have fallen to the bottom quartile when measured against all five-and ten-year periods since 1871. But history shows that after reaching such a low, stocks' average return for the next five years has been almost 9.5% annually after inflation. Furthermore, once stocks have plunged 50% from their highs, which they have done during the current bear market, investors have always been rewarded with winners over the next five years – and that includes the Depression decade of the 1930s. In December 1930, stocks were 50% off their highs of September 1929. Yet, over the next five years – when the economy was experiencing the greatest contraction in its history – investors were rewarded with an annual return of 7% after inflation…. In the long run, stocks are still the way to go.

Smartt comment: Caution, the past, especially when measured via long periods of time, is a **good guide** to the future but **not a guarantee**. None of us should have money in the stock market that we might need in five years or less. And the bond supply ought to be more than five years for many.

Buy and hold, after appropriate consideration of asset allocation, continues to be my recommendation as it: (a) minimizes investment expenses, (b) often minimizes or postpones the payment of income taxes on investments, and (c) sets us up for gaining the highest rate of return from our investments consistent with the level of risk of fluctuating values we are able to bear. Trying to time the stock market, having some "system" for buying and selling, cannot be relied upon to produce the same result per unit of risk borne. Further, such efforts require a significant time commitment AND can produce an even higher level of stress.

II. What Are OUR and THEIR Asset Allocations?

Each of us has a different ability to live with uncertainty (risk) and so our investments will be different:

As of June 30, 2009	Clients	The Smartts
Money Market Funds	3.6%	0.4%
Bond Funds	34.0%	4.1%
Stock Funds	62.4%	95.5%
Totals	100.0%	100.0%

Remember each of us has different goals and needs and our asset allocation should fit us and our family.

III. Vanguard Rates of Return (through June 30, 2009):

Performance percentages are per ***Morningstar.*** Amounts in parentheses are percentile rankings (1= best and 100= worst) within category.

Periods ended June 30, 2009	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index	**4.4%**	(51)	**-1.7%**	(38)	**-1.3%**	(39)
Tax-Managed Capital Appreciation	**5.2%**	(43)	**-1.6%**	(37)	**-1.6%**	(43)
Tax-Managed Small Capitalization	**0.7%**	(79)	**-0.8**	(34)	**4.9%**	(35)
REIT Index	**-11.7**	(61)	**-3.1%**	(48)	**5.1%**	(44)
Tax-Managed International	**5.7%**	(61)	**2.6%**	(36)		
Balanced Index	**4.2%**	(74)	**1.3%**	(24)	**1.9%**	(35)
Total Bond Market Index	**2.1%**	(86)	**5.0%**	(14)	**5.7%**	(17)
High–Yield Corporate Bond	**19.8%**	(75)	**2.8%**	(47)	**3.7%**	(42)

For comparison, here are several stock and bond benchmarks:

Periods ended June 30, 2009	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**3.2%**	**-2.2%**	**-2.2%**
Russell 2000 (small stocks)	**2.6%**	**-1.7%**	**2.4%**
Barclays Aggregate Bond Index	**1.9%**	**5.0%**	**6.0%**
CS First Boston High-Yield Index (bonds) (derived)	**16.8%**	**9.7%**	**7.1%**

Vanguard, per the July 13, 2009 edition of the *Wall Street Journal*, received more net new investment than any other mutual fund company for the first five months of this year, net buying of $39.9 billion, a nice vote of confidence in a stress filled period of markets.

Vanguard mutual funds and ETFs continue to perform as expected. A big surprise this year continues to be the recovery of value of "junk" bonds. Vanguard's High Yield Corporate Bond fund seeks to invest in the less risky portion of the "junk bond" market. Many bank trust funds and other fiduciaries shy away from junk bonds. I believe they are an appropriate, further diversification. The more different classes of assets we own the better off we are; some classes may perform better than expected over the same time periods that other asset classes perform worse than expected. The broader is our base, the better chance (but never the guarantee) we have to realize our investment objectives.

IV. "Fee-only" Compensation for Advisors Triumphs "Across the Pond:

From the Daily NAPFA Forum Digest dated June 29: Financial advisors in the U.K. will be banned from taking commissions.

Financial advisors in the United Kingdom will be banned from taking commissions to sell investment, life insurance and pension products to their clients, according to new rules [announced in late June] by the Financial Services Authority. Industry professionals say the regulations will help clean up an industry plagued by bribery and corruption for years, the *Financial Times* reported.

Financial advisors will have to tell their clients upfront how much the advice will cost, and give them the choice of paying for advice as a fee or having it deducted from their investments. "Crucially, the amount the advisor receives for recommending a product will be negotiated with the investor, and not determined by the product provider," according to the newspaper.

About 80% of advisory work performed by the 35,000 independent financial advisors (IFA's) in the U.K. is commission-based…. Another 50,000 financial advisors who work as agents of banks and insurance companies also work on commission, the newspaper said. The FSA also will require that advisors explicitly explain the distinction between independent and restricted forms of advice. The former involves recommendations from a broad sweep of market products and should be "based on comprehensive and fair analysis," said the *Financial Times.* Firms specializing in restricted advice are ones that give recommendations based on their own product menu.

"This is a great day for the consumer," said Andrew Fisher, chief executive of advisory firm Towry Law. " It is a ban on the bribery and corruption that has plagued [the] industry. Misselling driven by commissions should now end."

Smartt comment: I believe investors would vastly benefit if the Securities and Exchange Commission either decreed or recommended, strongly and very publicly, that commissions be disclosed in detail or eliminated in the USA. What are the chances? Slim and none. As mentioned in the newsletter three months ago, the SEC chairwoman is a long-time employee and then regulator of the brokerage industry. The fee-only versus sales commission discussion will continue, but the various important pieces of currently proposed regulatory reform will not include significant assistance to investors on this issue.

V. Pleased to Provide Additional Disclosure

Registered investment advisors are required by law to provide disclosure, when any of the facts of their business change (e.g. move office location, change method for charging fees to clients, etc.). In addition, in spite of the lack of change, advisors **must offer** to provide such **disclosure to all clients** on an annual basis. This is that required offer. My four page Required Disclosure document is available on my website, or by return email, or by return mail. It has not undergone significant change in the last year. If you wish to have a copy, please let me know. This is the first document which a client should receive and if you would like to see a copy, please do not hesitate to request it (even if you wish to pass it along someone else whom you believe might benefit from my services!).

In addition to the Required Disclosure, copies of the privacy statement are to be offered annually. Again, there has been no significant change, you may receive a copy via request.

I am a full member of NAPFA, the National Association of Personal Financial Advisors (the "fee-only" association). I take NAPFA's fiduciary oath annually. You may obtain a copy of this upon request.
Finally, I have a personal code of ethics. If you'd like to see this, just ask

John M. Smartt, Jr., CPA	Phone: 865 588-4159
2001 Partridge Run Lane	E-mail: johnsmarttcpa@yahoo.com
Knoxville, TN 37919-8967	Website: www.johnsmarttcpa.com