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

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I. Interview: John Bogle and Tony Robbins:

From *Money* Magazine, May, 2017 edition.

Tony Robbins is a best selling author; John Bogle started Vanguard which first made indexed mutual funds available to individual investors.

> "[Robbins'] new book, Unshakeable, aims to coach the masses that trying to outperform the market is, for the most part, a bad idea.
>
> Better, he writes, to be average—invest in low-cost index funds, which give you exposure to the entire market, and keep investing through the market's inevitable spikes and corrections. And he cautions against letting fear or anxiety steer your decisions.
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> 'You're not jarred by winter when you know it comes every year,' Robbins likes to say referencing the market's long-term pattern of boom and bust. (For the record, he says the bulk, but not all, of his own portfolio is in index funds.)
>
> Robbins is also promoting showmethefees.com, an online tool offered by America's Best 401k (ABk), a company he has partnered with that designs and administers retirement plans. The site lets you see an estimate of the fees charged by your workplace retirement plan—expenses that Robbins says are usually way too high—vs. what ABk might charge."

Interview of Robbins and Bogle continuing…

> "Robbins: One of the things you [Bogle] did was educate me to the realities of the market and the tyranny of fees. I did 50 interviews, but you were the one who said, 'Tony, if you really want to help people, you gotta look at these 401(k) fee structures.' Ninety million Americans have a 401(k) account {or related accounts}. It's where most Americans have their money, and it's where most Americans are being taken advantage of.
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> And one of the challenges there, Jack, … is that 80% of 401(k) plans are at small to medium-size businesses, and most of these plans are 'pay-to-play.' They don't even offer index funds. So that's one of the reasons I started doing research…

Bogle: Well, it's all about the cost. Investing is the one business in the world where you not only don't get what you pay for, but you get what you don't pay for {Both laugh}."

A caution:

> "In his first personal finance book, Money: Master the Game, Robbins also spoke of the importance of fees and was critical of most annuities. But he described fixed indexed annuities as a proven strategy that offers 'upside without the downside. Gains with no losses.
>
> MONEY has been critical of these insurance products for their high fees and overly complicated structure. The SEC has also warned that 'you can lose money by buying an indexed annuity. If you need to cancel your annuity early, you may have to pay a significant surrender charge and tax penalties.'
>
> Robbins say income needs are an important issue for many investors—and fixed indexed annuities were discussed in that context. He says, 'they're not a great investment right now,' given low interest rates…"

Smartt comment:

Indexed annuities are so complicated that they almost impossible to analyze. The product generally guarantees some portion of stock market returns to the investor, while protecting from losses (other than, importantly, losses which result from inflation). Generally high fees and the giving up of the top percentage of stock market gains in very good stock market years make these annuities "a sucker's bet" because the product appears to be giving something for nothing, or almost nothing.

II. What Are YOUR and MY Asset Allocations?

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

As of March 31, 2017	Clients	John Smartt
Money Market Funds	3.0	1.5%
Bond Funds	24.8	17.7%
Stock Funds	72.2	80.8%
Totals	100.0%	100.0%

Remember each of us has different goals and needs and our asset allocation should fit us and our family. If you have questions about your asset allocation, or your retirement plan investments, I'd be pleased to assist.

I have made no significant changes in my investments since the November, 2016 election. A few clients, concerned about the uncertainties, have requested a decrease in their ownership of stock. Most of these clients are withdrawing from their investments in retirement. If you have questions, don't hesitate to contact me.

III. Vanguard Rates of Return (through Latest Quarter End)

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

Periods ended March 31, 2017	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**5.8%**	(47)	**13.1%**	(15)	**7.7%**	(13)
Tax-Managed Capital Appreciation Admiral	**6.2%**	(26)	**13.4%**	(9)	**7.7%**	(12)
Tax-Managed Small Capitalization	**0.9%**	(70)	**14.1%**	(5)	**8.8%**	(6)
REIT Index Admiral	**1.0%**	(37)	**9.7%**	(14)	**5.0%**	(19)
FTSE All-World ex-US Index Admiral	**8.4%**	(22)	**4.7%**	(62)	**1.7%**	(24
Balanced Index Admiral	**3.8%**	(53)	**8.8%**	(14)	**6.6%**	(11)
Total Bond Market Index Admiral	**0.9%**	(62)	**2.3%**	(63)	**4.2%**	(48)
Interim-Term Investment-Grade Bond	**1.3%**	(56)	**3.5%**	(69)	**5.2%**	(51)
High–Yield Corporate Bond	**2.2%**	(57)	**6.1%**	(30)	**6.3%**	(33)

For comparison, here are several stock and bond benchmarks:

Periods ended March 31, 2017	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**5.9%**	**13.3%**	**7.4%**
Russell 2000 (small stocks)	**2.2%**	**12.4%**	**7.1%**
MSCI World Index	**6.4%**	**9.4%**	**4.2%**
Barclays Aggregate Bond Index	**0.8%**	**2.2%**	**4.1%**
BofAML US High Yield Master II TR (bond index)	**2.7%**	**6.8%**	**7.3%**

Vanguard mutual funds and ETFs (exchange-traded funds) continue to perform as expected. I expect each Vanguard fund or ETF, for each ten-year period to be in the top 1/3 before taxes based on low cost, and they ought to be in the top 1/4 (stock funds) after income taxes.

The two, routinely used, good quality bond funds are not in the top 1/3 in the last ten year period. Both hover around half way. I believe this is because actively managed good quality bond funds make up for their higher expenses by taking higher risks within the category to which Morningstar assigns them. These higher cost funds may "get away with it," taking higher than average risk, or, in the future, they may not. I continue to be satisfied with the two Vanguard funds.

The Vanguard High Yield Corporate Bond fund takes significantly less risk that the average "high yield" (also known as "junk bond") fund. The Vanguard fund, which takes less risk, continues to rank very highly in the rankings over the last ten year period. When the more risky portions of the "junk bond" are stressed, the Vanguard fund shines. Over the last ten years the Vanguard fund has captured approximately 2/3 of the excess of junk bond returns over good quality bond returns—in accord with my expectation. I continue to believe that, for tax deferred accounts, this fund is a reasonable, additional diversification.

If you have questions about your investment asset allocation, please contact me.

IV. **“Animal Spirits,” the Economy and the Stock Market:**

“Animal spirits” is a term economists use. And they are using it more often these days. There are two reasons why a national economy does well and why, generally as a result, its stock market does well. The first reason is rational, fundamental; that the economy is in balance in several senses and that growth is present in the economy—more jobs, every month, more spending by consumers, more investment by businesses. The second reason, neither rational nor fundamental, is “animal spirits.” So what in the world is it? It is the tendency of business owners and investors to be optimistic given other events occurring. Right now corporate leaders, mostly Republican, are happy that President Trump is, generally, not promising more regulation (of any part of the economy other than immigration and, imported goods). And, he promises a very large tax cut. The first tax cut “horse out of the gate” is a significant cut in federal income taxes on corporations. Many large investors are, similarly, cheered by the new national administration. Their animal spirits have, I believe, continued to lift the stock market.

And the stock market, near an all-time high, is very high in relation to corporate earnings. The S&P 500 index of large companies, companies which comprise 75-80% of the entire US stock market, was priced at the end of April at 25 times earnings. My “guru,” Wharton School Professor Jeremy Siegel, states that a more normal or average value for stocks is 19 time earnings (a price/earnings or P/E ratio of 19).

So I think that animal spirits is one of the reasons why the stock market continues to be high; high in spite of the threat of US involvement in wars on two continents, troubled relations with many other governments who have been, historically, our friends, and other governments which have, generally, not been our friends.of Employment continues to expand, though at no faster rate than it has for the last three to five years. I may be being too pessimistic, but I don’t see any rational basis for the high values of the US stock market. I suppose we are, though not perfectly constituted, nevertheless a better bet than the economies and stock markets of almost all other countries in the world.

I am happy that the stock I own is doing so well. I would be happier if I thought that stock market values had a better fundamental basis. I have difficulty telling clients where to put “new money,” money that wish to add to their investments. One place may be international stocks, and Vanguard has a comprehensive mutual fund and ETF (exchange traded fund) which invests in stocks outside the US.

Another answer is that we buy stock for investment for a long period of time, not months but years; decades are even better. I anticipate that stock values may not be as high one or two years from now. I do NOT, however, believe that we ought to sell now. Market timing is very difficult because one must predict correctly both when the market will decline in value and when it will begin to increase in value. Generally, the bad news continues until a period after the stock market begins to increase in value again, making getting back in to the stock market extraordinarily difficult.

So we buy and hold. We own some bonds which can be sold if we need cash after the stock market has taken a tumble and, hopefully, own enough bonds to tide us over until stock market values, due to either fundamentals, or animal spirits, or both begin to drive stock markets higher again.

John M. Smartt, Jr., CPA	Phone: (865) 525-9793
3039 Kingston Pike, Apartment # 5	E-mail: johnsmarttcpa@yahoo.com
Knoxville, TN 37919-4615	Website: www.johnsmarttcpa.com