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FINANCIAL COUNSELING & ADMINISTRATION
Registered Investment Advisor

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Rest in peace Paula Warner Smartt. Paula died October 15th. Many of you followed my wife's fight with pancreatic cancer on the caringbridge.com website. Thank-you for your concerns, good wishes, prayers, and memorials.

I. Beware "Free" Lunch and "Credentials"

From an article five weeks ago in the *Investment News* titled, "Regulators Focus on Free Lunches; Offering elderly clients a meal can be a prelude to ripping them off:"

> "There's no such thing as a free lunch in the investment advice sector, especially when brokers use the meal as a way to interest prospective elderly clients in high-fee investment products, according to the SEC.
>
> Kevin Goodman, national associate director of the [SEC]'s broker-dealer examination program said the agency targets brokers who frequently sponsor such lunches to attract new clients, who are often seniors.
>
> "We have seen during our examinations a strong correlation between using the free lunch seminars and successfully selling high-commission products," Mr. Goodman said…
>
> He said that although there is nothing inherently wrong with hosting marketing lunches, brokerage firms should supervise them properly.
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> "There is undeniable correlation between conducting [lunches] and a higher incidence of problematic behavior," Mr. Goodman said…
>
> Another area of concern for regulators is the proliferation of advice credentials that purport to show that a broker is a specialist in retirement investing. Often, the certifications are dubious.
>
> "The more impressive-sounding the designation and the less tied it is to actual education or accomplishments, the more problems we saw associated with the people who use those," Mr. Goodman said.

Smartt comment: Often annuities are sold with free lunches or dinners. Paula and I have been receiving close to one a week of these invitations, have managed to "pass" on all so far!

I offer a six months lunch "my treat" to all new clients to make sure we are all on the same page regarding investment management and to celebrate the progress we have made at the beginning of the relationship. No high, low or medium commission products are pitched. If you would like more assistance with your investments, I'd be pleased to visit over lunch, especially helpful to those employed and working hard full time.

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 September 30, 2015	Clients	The Smartts
Money Market Funds	1.7	1.7%
Bond Funds	26.7	4.1%
Stock Funds	71.6	94.2%
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.

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 September 30, 2015	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**-5.5%**	(36)	**13.3%**	(17)	**7.1%**	(14)
Tax-Managed Capital Appreciation Admiral	**-4.6%**	(19)	**13.5%**	(13)	**7.0%**	(16)
Tax-Managed Small Capitalization	**-5.2%**	(22)	**14.1%**	(8)	**7.7%**	(13)
REIT Index Admiral	**-4.3%**	(67)	**11.9%**	(26)	**7.0%**	(28)
Total International Stock Index Admiral	**-6.8%**	(77)	**2.1%**	(81)	**3.0%**	(44)
Balanced Index Admiral	**-2.8%**	(13)	**9.3%**	(9)	**6.4%**	(10)
Total Bond Market Index Admiral	**1.0%**	(22)	**3.0%**	(60)	**4.6%**	(42)
Interim-Term Investment-Grade Bond	**1.7%**	(1)	**4.1%**	(60)	**5.4%**	(39)
High–Yield Corporate Bond	**-0.9%**	(24)	**6.2%**	(18)	**6.2%**	(36)

For comparison, here are several stock and bond benchmarks:

Periods ended September 30, 2015	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**-5.3%**	**13.2%**	**6.7%**
Russell 2000 (small stocks)	**-7.8%**	**11.8%**	**6.6%**
MSCI World Index	**-6.0%**	**8.3%**	**4.7%**
Barclays Aggregate Bond Index	**1.0%**	**3.0%**	**4.4%**

BofAML US High Yield Master II TR (bond index)	**-2.5%**	**5.9%**	**7.1%**

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 Vanguard High Yield Corporate Bond fund takes significantly less risk that the average "high yield" (also known as "junk bond") fund. I continue to recommend it as an additional diversification from good quality bonds and am satisfied with its absolute performance exactly because it takes significantly less risk than the average high-yield fund.

For the last several years, in an atmosphere of very low interest rates, the managers of many actively managed bond mutual funds have been betting that higher risk bonds will have higher returns. This has increased both the relative return of their funds, as well as the risk. Vanguard bond funds have a long-term, clearly stated range of investments and are both lower-cost and more predictable as to rate of return. They have performed very well during the "flight to quality" amidst a declining stock market in the latest quarter.

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

IV. Another Vanguard ETF Cost Decrease

For four years the Vanguard Total Stock Market ETF, symbol "VTI," has had an annual cost of 5/100%, ultra-low for a mutual fund or ETF (exchange-traded fund). VTI is our largest individual investment holding. At present clients and family own more than $16 million of its shares, four times larger than the next fund/ETF owned. In the six month interim report to shareholders for the period ended June 30, 2015, the cost for that then latest six months was 4/100% per year.

How many other products you know, enjoy, and own have gone down in cost by 25% this year? VTI continues to be the backbone of my personal investments as well as client investments because of its absence of taxable capital gains distributions, its very low cost, and its broad diversification.

A fourth reason to like Vanguard's Total Stock Market Index mutual funds and ETF is the low portfolio turnover rate. This is the rate as a percentage of total investments which are replaced each year by other investments. The latest six month period portfolio turnover rate was only 3%, a small fraction of the average actively managed (e.g. not indexed) mutual fund.

V. Other News and Notes:

A letter to the editor of *The Economist* in the August 15, 2015 edition, spoke to an earlier article about the danger to investors from the narrowing of the inventory of bonds for sale by various institutions. It has been generally considered that in the present low interest rate environment that banks and other institutions were not making much money serving as market makers for individual bonds, were keeping smaller inventories of bonds on hand, so, in a panic, the prices of bonds might fall very quickly. The letter to the editor, by the global heard of ETFs for BlackRock (a very large investment bank and manager) rebuts the existence of ETFs as an additional danger in this environment and, in passing gives a good summary of some of the ways that ETFs are different from mutual funds:

"Although largely on point, your informative article on how exchange-traded funds have overtaken hedge funds as an investment vehicle inadvertently reinforced one common misunderstanding of how ETFs are bought and sold…You said that a rush to sell bond ETFs 'might force them to delay or limit redemptions (imposing "gates" in the jargon)'. In fact gates are unlikely to be imposed because ETFs trade in two different ways that offer superior liquidity to other funds holding bonds that sometimes impose gates.

The first form of trading occurs directly between buyers and sellers on an exchange, like a stock. This allows sellers of ETFs to find buyers without selling any of the underlying securities, which provides liquidity in the ETF even if there is a lack of liquidity in the underlying securities. For iShare bond ETFs, about 80% of all trading occurs on a stock exchange like this.

The second form of trading occurs when trading in the ETF is high enough in one direction that its price starts to diverge from the [value of the] underlying securities. If the ETF trades below the price of the underlying securities, an institutional arbitrager (a broker-dealer) then 'redeems' shares, causing the fund to shrink. But unlike a normal mutual fund, which must sell the securities it holds to return cash to an investor wanting to sell, ETFs can deliver underlying securities to the broker/dealer who decides whether to hold or sell those securities.

Because they facilitate liquidity in these two ways, we believe that ETFs, especially in times if market stress, are an important solution and integral part of the changing fixed-income [e.g. bond] market."

Smartt comment: ETFs are more complicated that mutual funds, but, especially for smaller investors, often bear lower costs. The writer notes that the "thinning" of bond inventories and trading is less of a problem to ETF owners than to bond mutual fund owners.

Another October, 2015 issue of the Investment News carried the news that PIMCO, the largest manager of bonds, is being sued, along with its parent company, for placing higher cost proprietary mutual funds on its roster of permissible 401(k) investments available to employees:

"The suit pegs all-in plan costs at 77 basis points [77/100%], which plaintiffs claim is 75% higher than the average retirement plan with between $500 million and $ 1 billion in assets and costs participants over $2.5 million in excess fees in 2013.

The complaint says the fees are 'outrageously high' when compared with the 44 bps for an equal-sized plan…"

Smartt comment: This is the latest in a series of legal actions against the trustees of large 401(k) plans based on lack of adherence to low cost investing.

If you are enrolled in a 401(k) plan and are an Investment Management Services client, then, without further cost, I will assist you to choose the lowest cost, most diversified funds within your plan. Please send me your 401(k) statement periodically, say at least annually, so that I can both (1) help you to reduce your investment costs and weave your investments into an integrated whole.

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