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Client Newsletter Volume XXV Number 3 February 1, 2020

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I. Capital in the 14th Century:

These excerpts, from an article by the same name, appeared in the January 11, 2020 edition of *The Economist* (subtitle: "New research suggests that secular stagnation has been around for ages."):

> "How low can interest rates go? It is a question that worries central bankers everywhere. Since the global financial crisis of 2007-08 rates have been pushed down to unprecedented levels in order to prop up growth. With central banks' interest rates near or below zero across much of the world, room for further cuts to combat the next downturn is limited. If America's Federal Reserve can manage to keep nominal rates at 2% or higher over the long term, it should be able to cope with the help of policies such as quantitative easing [e.g Fed buys bonds to keep interest rates low to stimulate the economy], mused Ben Bernanke, a former Fed chairman, at the conference of the American Economic Association (AEA) on January 4th. Alas, a working paper published by the Bank of England the previous day suggests that rates could have further to fall.
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> Most research on long-term trends in interest rates relies on data from the past century. But Paul Schmelzing of the Yale School of Management has gathered information on real interest rates (that is, corrected for inflation) covering 78% of advanced-economy GDP [gross domestic product, a measure of the total output of a national or other economy] going back to the early 14th century. He found that real interest rates have declined by 0.006-0.016 percentage points a year since the late Middle Ages…That may not seem much, but it means real interest rates have fallen from an average of around 10% in the 15th century to just 0.4% in 2018.
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> That conclusion undermines the claim that 'secular stagnation' is a recent economic malaise. The concept gained prominence after Larry Summers of Harvard University used it in 2013 to describe the falling rates of return on investment and economic growth in the American economy since the 1970s. Mr. Schmelzing's data instead insist that secular stagnation, insofar as it means falling interest rates, has been a feature of capitalism since its birth. Rates falling since the early 1980s may be less the result of acute problems, such as an aging population, than markets simply snapping back to a centuries-old trend.
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> The data also challenge some of the arguments of Thomas Piketty's 'Capital in the Twenty-First Century', one of the bestselling economics books of all time. These rely on the claim that the return on capital has stayed constant and been consistently higher than economic growth. Under such conditions, capitalism produces ever greater income inequality, Mr. Piketty claims, since there are no forces acting against the steady concentration of wealth. If real interest rates—and hence, returns on capital—have been falling for centuries, however, there may well be such a force.

Mr. Schmelzing's conclusions pose an even starker challenge to central bankers. If the historical trend continues, by the late 2020s global short-term interest real rates will have reached permanently negative territory. By the late 21st century, long-term rates will have joined them. Even unconventional monetary policies, which rely on driving down long-term rates, would then lose traction. Any hopes for nominal rates of 2% or more, in the long term, may prove to be a pipe dream."

Smartt comment: so the article warns that bond holders would, over the very long term, expect lower interest rate income in relation to inflation and the Fed and other central banks might be less effective in using interest rates to stimulate the economy, when stimulus is needed during a recession. It's only one study, but appears to be quite comprehensive.

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 December 31, 2019	Clients	John Smartt
Money Market Funds	1.6	6.6%
Bond Funds	29.3	21.5%
Stock Funds	69.1	71.9%
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.

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 December 31, 2019	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**30.8%**	(39)	**11.2%**	(26)	**13.4%**	(13)
Tax-Managed Capital Appreciation Admiral	**31.5%**	(23)	**11.7%**	(9)	**13.6%**	(6)
Tax-Managed Small Capitalization	**23.3%**	(57)	**9.5%**	(10)	**13.3%**	(4)
REIT Index Admiral	**28.9%**	(29)	**7.2%**	(38)	**12.0%**	(29)
Total Int'l Stock Index Admiral	**21.5%**	(52)	**5.9%**	(32)	**5.1%**	(53)
Balanced Index Admiral	**21.8%**	(19)	**8.1%**	(10)	**9.7%**	(11)
Total Bond Market Index Admiral	**8.7%**	(34)	**3.0%**	(32)	**3.7%**	(47)
Interim-Term Investment-Grade Bond	**10.4%**	(81)	**3.8%**	(75)	**5.0%**	(65)
High–Yield Corporate Bond	**15.8%**	(12)	**5.7%**	(18)	**7.1%**	(21)

For comparison, here are several stock and bond benchmarks:

Periods ended December 31, 2019	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**31.5%**	**11.7%**	**13.6%**
Russell 2000 (small stocks)	**25.5%**	**8.2%**	**11.8%**
MSCI World Index	**27.7%**	**8.7%**	**9.5%**
BBgBarc US Aggregate Bond Index	**8.8%**	**3.1%**	**3.6%**
ICE BofAML US High Yield Master II TR (bond index)	**12.1%**	**5.4%**	**7.6%**

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. The Vanguard fund, which takes less risk, continues to rank reasonably highly in the rankings over the last ten year period. When the more risky portions of the "junk bond" investment sector are under stress, the Vanguard fund shines, as it is doing so at present. Over the last ten years the Vanguard fund has captured more than 3/4 of the excess of junk bond returns over good quality bond returns—meeting my expectation. I continue to believe that, for tax deferred accounts, this fund is a reasonable, additional diversification and comprises some of my personal bond holdings.

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

IV. Inessential Oils, A Contrarian on the Dangers of Investing in Oil Stocks:

The following quotes come from an article of the same name from the January 11, 2020 edition of *The Economist*:

> "Late last year Jeremy Grantham, an investor routinely described as 'legendary', spoke about ESG (environmental, social, and governance) investing at a conference in London… 'I love S and G,' he began, 'But E is about survival'…
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> Mr. Grantham's…professional firm has a distinctive philosophy: it favors companies with low share prices relative to measures of fundamental worth, such as cash flows or the value of assets. Mr. Grantham owes much of his public profile to his decrying of stockmarket bubbles.
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> This sort of hard-headed long-termist approach also informs Mr. Grantham's views on environmental policy. And his conclusion is that investors should avoid owning oil stocks.
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> It is a call that raises hackles. Committees that set investment policies for pension funds fear that if they spurn oil stocks it will be harder to reach their financial goals. Mr. Grantham checked the data to find out whether, and how much, omitting the stocks of any industry over three decades would have hurt a hypothetical investor. He created synthetic portfolios that left out each of the ten broad stock market sectors and compared their returns with the market as a whole.

> The results were surprising, it made hardly any difference. The S&P index returned an average of 9.71% annually between 1989 and 2017; the index excluding energy stocks returned 9.74%. The range of returns, from the worst portfolio to the best, was just 0.5 percentage points.
>
> This finding seemed like it might be fluke. But a further check, going back to 1925, had a similar outcome. The spread between the best and worst portfolios was 0.54 percentage points; there was hardly any gap between the portfolio with energy stocks and without them…This is worth knowing, whatever your views on ESG. The market, it seems, has done rather a good job over time of pricing stocks so that no broad industry group yields abnormal returns.
>
> Mr. Grantham believes that oil might yet prove an exception. Oil demand has already peaked in rich countries and, as climate fears grow and green technologies become cost-effective, it will eventually peak worldwide. But not everyone is keenly focused on this prospect. Skepticism regarding climate science is commonplace in America. To the extent that skeptics are investors, and are betting on business as usual, at least some of the risks facing Big Oil may not be in the price…
>
> A lot of finance types quietly suspect that greenery is anti-capitalism in metastatic form. Mr. Grantham is clearly not of this anti-businesss persuasion. That makes it far harder to dismiss his arguments out of hand. 'This is the first time that a major industry has been put on notice that it is going out of business, even if it may take a long time,' he says. His arguments pose a challenge to investors: do you really want to go along for such a bumpy ride?"

Smartt comment: Several clients have chosen to place some or all of their stock investments in a Vanguard socially responsible stock ETF which, among other things, omits investments in oil stocks. The change can be done, without tax consequences, within an IRA account; otherwise taxable gains (or, possibly losses) may result.

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