John M. Smartt, Jr., CPA
PATRIOT INVESTMENT MANAGEMENT
Registered Investment Advisor Representative

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I. The Virus and Investing

The coronavirus' effects are causing negative economic effects, large ones. Corporations are losing sales, making losses rather than profits, letting off workers. Their suppliers are, likewise, contracting. Workers without jobs cannot spend as much, and most everyone is spending less since social distancing at home.

Vanguard's Total Stock Market Index ETF has, at the pit of the decline in the stock market decreased in value by 30% (since December 31, 2019). As this is written, in the early AM of April 29th, the stock market has gone back up by 60% of that decline. About two-thirds of clients are concerned about the losses (and possible future stock losses). Many are facing loss or reduction of job income. The other one-third wonder if this is (or has been) an opportunity to buy stocks when stocks are cheap.

I am counseling "staying the course" unless short-term needs for cash from investments have increased due to economic difficulties. There is no guarantee that that 30% decline will be the end of the bear market and there is no clear outlook on how long the economic difficulty may last and/or how long the recovery (posited but not guaranteed) will take.

If stocks always went up in value, they would pay no more than bonds pay long term (which is significantly less than stocks have increased over a couple of centuries of US economic history). The price for owning that potentially favorable asset, stock, is to have to bear the fluctuations, big, negative fluctuations, occasionally. There is no way around this short of buying one form of insurance or another. The insurance costs so much that it is not worth owning.

We own bonds because, regardless of our financial condition today, we might need to spend money from our investments tomorrow, even if stock values are still "in the tank." Bonds have performed well, holding their value or even increasing in value, federal government bonds better than corporation bonds.

If you have questions or concerns about your investments, do not hesitate to give me a call or send an email.

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, 2020	Clients	John Smartt
Money Market Funds	1.9	4.2%
Bond Funds	33.3	24.6%
Stock Funds	64.8	71.2%
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.

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, 2020	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**-20.9%**	(58)	**5.7%**	(36)	**10.2%**	(21)
Tax-Managed Capital Appreciation Admiral	**-20.0%**	(45)	**6.5%**	(18)	**10.5%**	(7)
Tax-Managed Small Capitalization	**-32.2%**	(48)	**0.5%**	(12)	**8.1%**	(4)
REIT Index Admiral	**-24.1%**	(44)	**0.5%**	(45)	**7.9%**	(39)
Total Int'l Stock Index Admiral	**-24.3%**	(67)	**-0.7%**	(37)	**2.1%**	(60)
Balanced Index Admiral	**-11.6%**	(17)	**5.1%**	(8)	**7.9%**	(8)
Total Bond Market Index Admiral	**3.3%**	(17)	**3.3%**	(13)	**3.8%**	(34)
Interim-Term Investment-Grade Bond	**-0.5%**	(8)	**3.2%**	(31)	**4.6%**	(48)
High–Yield Corporate Bond	**-10.6%**	(21)	**2.9%**	(7)	**5.5%**	(8)

For comparison, here are several stock and bond benchmarks:

Periods ended March 31, 2020	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**-19.6%**	**6.7%**	**10.5%**
Russell 2000 (small stocks)	**-30.6%**	**-0.2%**	**6.9%**
MSCI World Index	**-21.1%**	**3.2%**	**6.6%**
BBgBarc US Aggregate Bond Index	**3.1%**	**3.4%**	**3.9%**
ICE BofAML US High Yield Master II TR (bond index)	**-13.1%**	**2.7%**	**5.5%**

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 all of the excess of junk bond returns over good quality bond returns—exceeding 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. John Smartt-Registered Investment Advisor Representative

After being the head of my own "organization" (a sole proprietorship with only myself as an employee/owner), I have become affiliated with Patriot Investment Management ("PIM"), an SEC regulated registered investment advisor headquartered here in Knoxville. Continuing investment management clients will know that this changes very little, I continue to be responsible for all services to my clients, continue to work from a home office, no changes in costs to clients. With no plans on retiring, but continuing to grow older, when I eventually do retire, my clients have a clear path to PIM for their investment management needs. PIM also will begin to do all of my regulatory work and will provide me with my professional liability insurance coverage.

So for clients, very, very little change and more continuity.

V. Virus, Various

This is part of a Bill Gates' article in the April 25, 2020 edition of *The Economist*:

> "When historians write the book on the covid-19 pandemic, what we've lived through so far will probably take up only the first third or so. The bulk of the story will be what happens next.
>
> In most of Europe, East Asia and North America the peak of the pandemic will probably have passed by the end of this month. In a few weeks time, many hope, things will return to the way they were in December. Unfortunately, this won't happen.
>
> I believe that humanity will beat this pandemic, but only when most of the population is vaccinated…Even if governments lift shelter-in-place orders and businesses reopen their doors, humans have a natural aversion to exposing themselves to disease. Airports won't have large crowds…And the world economy will be depressed because demand will stay low and people will spend more conservatively.
>
> As the pandemic slows in developed nations, it will accelerate in developing ones. Their experience, however, will be worse…The virus will spread quickly, and health systems won't be able to care for the infected. Covid-19 overwhelmed cities like New York, but the data suggest that even a single Manhattan hospital has more intensive-care beds than most African countries. Millions could die…
>
> Over the next year, medical researchers will be among the most important people in the world…

My hope is that by the second half of 2021, facilities around the world will be manufacturing a vaccine. If that's the case, it will be a history-making achievement: the fastest humankind has ever gone from recognizing a new disease to immunizing against it.

…Two other big medical breakthroughs will emerge from the pandemic. One will be in the field of diagnostics. The next time a novel virus crops up, people will probably be able to test for it at home in the same way they test for pregnancy…Researchers could have such a test ready within a few months of identifying a new disease.

The third breakthrough will be in antiviral drugs. These have been an underinvested branch of science. We haven't been as effective in developing drugs to fight viruses as we have those that fight bacteria. But that will change. Researchers will develop large, diverse libraries of antivirals, which they will be able to scan through and quickly find effective treatments for novel viruses…

Our progress will not be in science alone. It will also be in or ability to make sure everyone benefits from that science. In the years after 2021, I think we'll learn from the years after 1945. With the end of the second world war, leaders built international institutions like the UN to prevent more conflicts. After covid-19, leaders will prepare institutions to prevent the next pandemic…

None of this is inevitable. History doesn't follow a set course. People choose which direction to take, and may make the wrong turn. The years after 2021 may resemble the years after 1945. But the best analogy for today might be November 10th 1942. Britain had just won its first land victory of the war, and Winston Churchill declared in a speech: 'This is not the end, It is not even the beginning of the end. But it is, perhaps, the end of the beginning.'"

"Tests of Reason" from the same current issue of *The Economist*:

…"Without a vaccine, or therapeutic drugs, neither of which is guaranteed, countries therefore face a future of bouncing in and out of lockdown every few months, with infection rates ebbing and flowing in response. The result will be mounting death tolls, depressed economies and confidence-sapping uncertainty. This can, however, be ameliorated by extensive testing for the virus. Testing enables government to keep tabs on the disease, reveals which social-distancing measures work, and, if those testing positive remain at home, instills confidence in the public that it is safe to go out.

Economies of scale: America is in a particularly tight spot. Parts of its government responded slowly to the pandemic to start with, and it now faces high levels of infection that are spread across the country. In response a consensus is emerging among its scientists, economists and public-health officials that a massive increase in testing capacity—creating a system that can test millions of people a day for the virus—will be needed to get the place out of lockdown safely. A testing system of this kind has never been build before. It will be expensive, costing tens, possibly hundreds of billions of dollars in America alone. But it offers a way to return to something approaching normal life with a degree of confidence that the pandemic is under control."

John M. Smartt, Jr., CPA	Phone: (865) 525-9793
3039 Kingston Pike, Apartment # 1	E-mail: johnsmarttcpa@yahoo.com
Knoxville, TN 37919-4615	Website: www.johnsmarttcpa.com