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I. Simplify the Estate Settlement Process--TOD

First, note well that I am not an attorney. If you are involved in settling an estate (paying off creditors, selling assets <home, other investments, automobile>, transferring bequests to the beneficiaries) you will probably need the assistance of an attorney. Further, those settling an estate are often family of the deceased, working for free and working while under the additional stress of the death and of mourning. Settling an estate always has complications.

There are two principal systems by which transfers of assets (generally to the spouse, and/or to children) are accomplished. The first, the beneficiary designation system applies to IRAs, 401(k) accounts, and other retirement savings accounts. When the account is opened, there is a designation of who gets the balance of the account at the death of the owner. Primary beneficiaries obtain the assets; secondary beneficiaries obtain a share if a primary beneficiary is no longer living. The beneficiaries open a similar account at TDAmeritrade (e.g. a Roth IRA or a Traditional IRA) and the transfer happens with very little effort/paperwork.

Typically, a regular, currently taxed account passes by the operation of the owner's will. This generally involves the court system. This is a matter of state law so there are some differences among states (another reason to seek the assistance of an attorney). The chancery court generally handles estates and trusts. In Tennessee, a *letter testamentary* is issued by the court to designate and empower the person or persons who are going make decisions and who do some or all of the work of settling the estate. This document and the death certificate are submitted to TDAmeritrade and the regular account assets are transferred to an estate account at TDAmeritrade. The beneficiaries then open their own regular accounts at TDAmeritrade and there is a transfer from the estate account to the account(s) of the beneficiares.

The process can be made more simply if a TOD (Transfer on Death) order has been entered. This allows the transfer from the person who died to go directly to the TDAmeritrade account of the beneficiaries, no estate account at TDAmeritrade is required.

If you have an interest in simplifying the settlement of your estate, (and, perhaps, after consultation with your attorney) I will be pleased to assist you with the TOD paperwork. The TDAmeritrade form is relatively simple. Note that, like beneficiaries of retirement accounts, TODs may be amended if you wish.

II. <u>What Are YOUR and MY Asset Allocations?</u>

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

As of June 30, 2020	Clients	John Smartt
Money Market Funds	2.1	4.5%
Bond Funds	29.8	22.2%
Stock Funds	68.1	73.3%
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. <u>Vanguard Rates of Return (through Latest Quarter End)</u>

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

Periods ended June 30, 2020	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**-3.4%**	(38)	**10.0%**	(30)	**13.7%**	(18)
Tax-Managed Capital Appreciation Admiral	**-2.6%**	(25)	**10.6%**	(13)	**14.1%**	(6)
Tax-Managed Small Capitalization	**-17.8%**	(59)	**4.4%**	(17)	**11.2%**	(9)
REIT Index Admiral	**-13.9%**	(35)	**5.4%**	(31)	**9.7%**	(31)
Total Int'l Stock Index Admiral	**-10.6%**	(43)	**2.4%**	(29)	**5.3%**	(56)
Balanced Index Admiral	**1.0%**	(13)	**8.0%**	(8)	**9.9%**	(9)
Total Bond Market Index Admiral	**6.4%**	(24)	**4.3%**	(23)	**3.8%**	(47)
Interim-Term Investment-Grade Bond	**6.7%**	(7)	**5.0%**	(60)	**5.0%**	(65)
High–Yield Corporate Bond	**-3.4%**	(21)	**4.6%**	(10)	**6.3%**	(11)

For comparison, here are several stock and bond benchmarks:

Periods ended June 30, 2020	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**-3.1%**	**10.7%**	**14.0%**
Russell 2000 (small stocks)	**-13.0%**	**4.3%**	**10.5%**
MSCI World Index	**-5.8%**	**6.9%**	**10.0%**

BBgBarc US Aggregate Bond Index	**6.1%**	**4.3%**	**3.8%**
ICE BofAML US High Yield Master II TR (bond index)	**-4.8%**	**4.6%**	**6.5%**

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 almost 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. Second Quarter Century of the Newsletter

The masthead of this edition of the newsletter notes the beginning of the 26th year of publication. It has been a useful tool to pass along information. I look forward to continuing to write it for years to come. If you are interested in reading more about some investment related topic, I'd be grateful for your input.

There are local, regional and national groups who support and encourage authors. I don't think they are involved with the authors of newsletters.

V. Virus, Various

At this writing, the Congress and the President are considering the next piece of legislation to assist both the citizenry and the national economy. There are a large number of individuals, groups, and governments that need help. The Democrats first bid to assist has a price tag of $3 trillion. The Republican response is coming together this week with a price tag of $1 trillion.

One of the Republicans' main concerns is to correct what they consider an error in the earlier legislation, the part that is currently paying an extra $600 per week to persons who are unemployed. Many of those who have lost jobs are to relatively lowly paid; many are in the restaurant, hotel and leisure industries. It is asserted that businesses are having trouble getting people to come back to work because an estimated 70% are collecting more money through unemployment benefits than they had been while working. This extra money has helped maintain the economy of the country but Republicans believe that this overpayment makes it harder for small businesses to get their employees back to work. The Economist magazine notes that there is less of this effect than meets the eye for several reasons. Among the reasons are that compensation for employment in the US consists of more than wages—retirement contributions (to 401(k) plans) and the maintenance of health insurance are also tied to jobs. Further, there is the requirement in most states that in order to obtain unemployment benefits the person must seek employment.

The Republican answer is to lower the amount paid as unemployment so that total compensation is no more than 70% of the wage that the worker was earning before. This makes a lot of sense to an economist, will provide the push thought missing to get back on the job. The problem with this approach, a problem that the

US Department of Labor warned about in May, is that state employment compensation computer systems are not up to date. The proposed fix is to reduce the weekly amount to $200 then, several months later, go to the 70% level of prior earnings. This appears to be a reasonable compromise.

The Democrats suggest providing even more support to school systems and other units of local government, most of which are stressed with all of the changed and additional spending occasioned by responses to the virus.

It is important legislation, we all should hope that they get it right. The Great Recession of 2007-2009 saw trillions of dollars spent mostly to prop up a financial system that was in real danger of imploding. Much of the spending went to banks which made most individual taxpayers unhappy. Many continue to be unhappy that the various persons and institutions responsible for the crisis were never brought to trial. Most economists believe that the amount of stimulus spent in that crisis was about half as much as it should have been. If there had been more aid to more individuals, governments, etc. the recession would have lasted fewer years and the economy would have been in better straits as a result.

Financial markets:

The Federal Reserve is doing more in this crisis than ever before to prop up the economy, including buying both federal and corporation bonds. These actions have reduced interest rates. It may be a good time to purchase a home or to get one's mortgage renegotiated. Note that I am NOT an expert in residential real estate and do not particularly like it (and much enjoy living in an apartment).

There have been corporate winners and losers during the virus. Travel is almost at a standstill. Restaurants are suffering (though my favorite bar/restaurant has done the right things regarding protecting employees and customers and I have much enjoyed being back there. Their business appears to have largely recovered, they were lucky in having a large premises easily changed to comply with the various public health dictates.

The stock market is a lot higher at this writing than I thought it would be given the overall failure of the reopening and continued presence of the virus. A reminder, we don't own stock investments because of what they might yield in the next month or the next year. We own stock investments because, over decades, they perform much better than bonds—not guaranteed, but two centuries of history is a reasonable basis for making such judgment.

If you are worried about your investments, please do not hesitate to contact me. Changes in financial circumstances often require changes in ones investments.

The judgment of Bill Gates, shared with you in the last newsletter, appears to be correct in that the pain of the virus will not be curtailed until there is a vaccine that works. There are a number of candidates and testing is proceeding at a record, rapid pace. May those results bear fruit, and bear fruit soon.

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