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I. Stocks Valued Highly; Real Estate May Be Higher:

Let me begin with a disclaimer. I don't particularly like real estate. I live in an apartment. My view of life is that I will be happier if I minimize my investment in residential property. Such property is non-diversified; your residence is all in one location, in one neighborhood, one city, one type of home. Further, residential real estate investing requires specialized knowledge. Realtors generally work only in a few neighborhoods, values are very localized. That said, in most areas of the US the prices of residential real estate have increased very quickly recently.

In the last few months several of my clients have contacted me about real estate, rental property. All have realized that the values of property are very high now. I have assisted several to invest in diversified, very low cost stock and bond Vanguard investments rather than in rental property. Each circumstance was a bit different. One was in process of retiring and was looking to simplify life. Another got a very nice offer for existing investment property; another gave up trying to find a rental property in which to invest because the prices were judged to be too high.

Yes, the US stock market is currently very highly valued. My guru, Dr. Jeremy Siegel, says that stocks are fairly valued when it takes an investment of about $19 to buy $1 of current corporate earnings (a price/earnings ratio of about 19). The US stock market is now over 30. It may go up more, it may go down suddenly. I am unable to predict market fluctuations. I do believe that in the long-term, stocks are a good investment, when owned for a long period, at least five years. If you might need money back from your investments within five years, then that part of one's investments ought to be in bonds or in a money market account, not stock.

I would be pleased to assist you to diversify if you wish reduce (or not to increase) your investment in residential or rental property.

II. What are MY and YOUR Asset Allocations?

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

As of June 30, 2021	Clients	John Smartt
Money Market Funds	1.9%	0.5%
Bond Funds	25.2	21.5
Stock Funds	72.9	78.0
Totals	100.0%	100.0%

Remember each of us has different goals and needs and our asset allocation should fit us and our family. For example, although still within the working part of my life, I must take significant withdrawals from my IRA each year (Required Minimum Distributions, RMDs) so a significant part of my investments within my traditional IRA are invested in bonds.

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 June 30, 2021	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**15.2%**	(42)	**17.9%**	(18)	**14.7%**	(18)
Tax-Managed Capital Appreciation Admiral	**15.1%**	(49)	**18.2%**	(13)	**15.0%**	(78)
Tax-Managed Small Capitalization	**23.6%**	(21)	**15.7%**	(25)	**13.4%**	(3)
REIT Index Admiral	**21.4%**	(47)	**7.1%**	(48)	**9.7%**	(29)
Total Int'l Stock Index Admiral	**9.7%**	(35)	**11.1%**	(26)	**5.7%**	(51)
Balanced Index Admiral	**8.3%**	(62)	**12.1%**	(15)	**10.3%**	(10)
Total Bond Market Index Admiral	**-1.7%**	(74)	**3.0%**	(53)	**3.4%**	(48)
Interim-Term Investment-Grade Bond	**-0.9%**	(49)	**4.1%**	(83)	**4.6%**	(75)
High–Yield Corporate Bond	**2.3%**	(84)	**6.4%**	(51)	**6.1%**	(21)

For comparison, here are several stock and bond benchmarks:

Periods ended June 30, 2021	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**15.3%**	**17.6%**	**14.8%**
Russell 2000 (small stocks)	**17.5%**	**16.5%**	**12.3%**
MSCI World Index	**13.0%**	**14.8%**	**10.7%**
BBgBarc US Aggregate Bond Index	**-1.6%**	**3.0%**	**3.4%**
ICE BofAML US High Yield Master II TR (bond index)	**3.7%**	**7.3%**	**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 <u>top 1/3 before taxes based on low cost</u>, and they <u>ought to be in the top 1/4 (stock funds) after income taxes</u>.

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" investment sector are under stress (as they have been recently), the Vanguard fund shines and it is doing so at present.

Over the last ten years the Vanguard fund has captured much 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. Book Review: Changing Gear

By Jan Hall and Jon Stokes, "Changing Gear, Creating the Life You Want After a Full-on Career," contains a very detailed, systematic approach to planning ones retirement. The book is directed to individuals who have climbed the organizational ladder, type A personalities, who derive a lot of satisfaction from their jobs.

They posit that one's career choice may be made for unconscious and well as conscious reasons, that family dynamics may play a larger part than one is able to understand clearly.

The book recommends thinking in an intentional way about what one will do with one's time in retirement prior to the retirement date. It has a large number of examples of individual situations, the problems and opportunities which arise and how each individual coped with the changes involved.

With 329 pages plus index, it is not a quick read.

V. Bigger Nest Egg? Thank Richard Thaler.

This article appeared in Investment News, October,16. 2017 edition:

> "If you have a 401(k) plan at work, there's a good chance that you're saving more for retirement because of Richard Thaler.
>
> The Nobel Prize for economics tries to recognize important research with far-ranging consequences—but Mr. Thaler, who was awarded the prize last Monday, may be its first winner to have had an almost immediate effect on millions of people's paychecks.
>
> Over the last few decades, as more and more American employers killed off their pensions, workers were offered 401(k)s or similar retirement plans with defined contributions rather than defined benefits.
>
> These voluntary accounts should have worked, in theory. Standard economic theory assumes people act rationally: Workers left to their own devices, should save and invest properly to meet their long-term goals.
>
> But Mr. Thaler and other adherents to behavioral economics pointed out that workers saving for retirement can be their own worst enemies. Without help, Mr. Thaler argued, they'll never retire. 'Probably [behavioral economics'] biggest impact is changing the way retirement plans are run,' Mr. Thaler said in a speech at the CFA Institute's annual conference…
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> For years, Mr. Thaler championed the idea that employees could be 'nudged' into joining retirement plans, a concept known as automatic enrollment. Rather than waiting for workers to fill out 401(k) paperwork, employers should automatically sign them up for the plans. If employees aren't interested, they can opt out.

A survey last year by the Plan Sponsor Council of America showed 58% of plans were automatically signing up workers, up from just 8.1% in 2000.

Automatic Escalation:

Mr. Thaler didn't come up with the idea of automatic enrollment, even if he helped popularize it in the 2008 best seller he co-authored with Cass Sunstein, 'Nudge, Improving Decisions About Health, Wealth and Happiness' (Penguin Books). Mr. Thaler did, however, develop the notion of automatic escalation, also called 'save more tomorrow,' along with Shlomo Benartzi, a behavioral economist at the University of California at Los Angeles.

The goal of auto-escalation is to boost how much workers are saving. Setting aside 15% of your salary—an appropriate level for many middle- and upper-income workers—can feel impossible. Auto-escalation addresses this by nudging workers to agree to future increases in their savings rates, usually one percentage point each year. A majority of employers now offer some kind of auto-escalation feature, according to the PSCA, though often workers need to proactively sign up for the option.

Automatic escalation can have a big impact on savings rates, according to a recent analysis by David Blanchett, head of retirement research at Morningstar Investment Management.

According to research by Jack VanDerhei of the Employee Benefit Research Institute, the combination of auto-enrollment and auto-escalation can boost a worker's chances of retiring with enough income.

In Mr. Thaler's world of defaults and nudges, much depends on getting the details right. The wrong kind of nudges can be destructive. Many companies encourage workers to invest much of their retirement in company stock, something Mr. Thaler has argued is too risky.

He also says many companies are encouraging workers to save to little."

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