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I. How to Know if a Roth 401(k) Is Right for You
II. What are YOUR and MY Asset Allocations?
III. Vanguard Rates of Return (Through Latest Quarter End)
IV. Decoding Index Funds' DNA
V. The U.S. Market is Ready for a Low-Carbon Economy

I. How to Know if a Roth 401(k) Is Right for You:

In an article published in the *Wall Street Journal* (May 18-19th edition of 2019):

> "…Fewer than 15% of workers who have access to Roth 401(k) plans put money into them according to separate surveys conducted by Vanguard and Alight Solutions. By contrast, the participation rate for traditional 401(k) retirement plans is often 80% or more.
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> Many workers now have access, as the number of companies offering a Roth 401(k) has surged recently. Vanguard estimates that 71% of traditional 401(k) plans it administered in 2018 included a Roth…option, compared with 37% in 2009.
>
> Both traditional…and Roth 401(k)s are tax-favored savings plans that encourage employees to set aside dollars now and withdraw them in retirement. Often the employer matches some of the worker's contribution.
>
> The differences begin with what the worker puts in. Contributions to a traditional…plan are typically tax-deductable, while contributions to a Roth 401(k) are made in after-tax dollars. When the money is withdrawn in retirement, payouts from traditional 401(k)s are taxable at ordinary income tax rates, while payouts from Roth 401(k)s can be tax-free.
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> The upshot is that choosing a Roth 401(k) is often more expensive in the short run, because the saver pays the tax upfront…This drawback has an upside…a worker who puts $10,000 into a Roth saves more…,because the Roth dollars are after tax.
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> When is it smart to opt for a Roth?...If a saver expects a higher federal and state tax rate at withdrawal than when the money was put in, a Roth account is better.
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> Your tax rate in several decades is hard to predict, of course. But if a worker is under age 30 and his top tax rate is 12%, it's likely that his retirement tax rate will be higher…On the other hand, if a 45-year old worker's top rate is 32%, her tax rate in retirement may well be lower—so she may want to contribute more to her traditional 401(k)."

Smartt comment: In addition to the above are two other important considerations. First, if your objective is to provide a bequest to the next generation, a Roth is a better bequest because the income taxes have been paid and the account can continue to grow tax free during the 10 year required withdrawal period. Second,

there is no requirement to withdraw from a Roth IRA (rolled over from the Roth 401(K)) after age 72 so the investment period can be very, very long. It is thus a great place to own stock.

If you have questions about your 401(k) plan alternatives, or traditional versus Roth IRA alternatives, I'd be pleased to assist.

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, 2022	Clients	John Smartt
Money Market Funds	1.7%	0%
Bond Funds	25.4	16.9
Stock Funds	72.9	83.1
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 March 31, 2022	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**-5.5%**	(58)	**15.4%**	(33)	**14.2%**	(26)
Tax-Managed Capital Appreciation Admiral	**-5.3%**	(52)	**15.9%**	(16)	**14.7%**	(8)
Tax-Managed Small Capitalization	**-5.5%**	(34)	**11.0%**	(18)	**12.5%**	(5)
REIT Index Admiral	**-6.0%**	(66)	**9.7%**	(52)	**9.7%**	(32)
Total Int'l Stock Index Admiral	**-6.1%**	(33)	**6.8%**	(38)	**5.8%**	(51)
Balanced Index Admiral	**-5.6%**	(62)	**10.3%**	(15)	**9.5%**	(14)
Total Bond Market Index Admiral	**-6.0%**	(58)	**2.1%**	(42)	**2.2%**	(50)
Int.-Term Invstmt.-Grade Bond Admiral	**-6.9%**	(21)	**2.8%**	(70)	**3.2%**	(66)
High–Yield Corporate Bond	**-4.2%**	(53)	**4.2%**	(37)	**5.1%**	(35)

For comparison, here are several stock and bond benchmarks:

Periods ended March 31, 2022	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**-4.6%**	**16.0%**	**14.6%**
Russell 2000 (small stocks)	**-7.5%**	**9.7%**	**11.0%**
MSCI World Index	**-5.2%**	**12.4%**	**10.9%**
Bloomberg US Aggregate Bond Index	**-5.9%**	**2.1%**	**2.2%**
ICE BofA US High Yield Master TR (bond index)	**-4.5%**	**4.6%**	**5.7%**

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 highly in the rankings over the last ten year period. Over the last ten years the Vanguard fund has captured most 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. Decoding Index Funds' DNA:

From an article in the September, 2021 edition of the *Morningstar ETFInvestor*:

> "Index methodologies are index funds' DNA. They are the instructions that dictate out how indexes—and by extension index funds—select and weight their constituents [investments]. They impose constraints. They put in parameters for regular upkeep. Index methodologies define the makeup of an index fund's portfolio, its return potential, and its risk.
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> Understanding index construction is central to index fund due diligence.
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> When we [Morningstar] rate index funds, process is paramount. Our Process ratings receive an 80% weight in calculating our overall rating for index funds. Why? Because our assessment if index funds' processes centers around their index methodologies—their DNA.
>
> Representative
>
> The best indexes are representative of the investment opportunity set or the style that they are trying to capture. Vanguard Total Stock Market ETF **VTI** carries a Morningstar Analyst Rating of Gold, chiefly driven by its High Process Pillar rating. It earns our highest Process rating on account of the degree to which its index, the CRSP U.S. Total Market Index, represents the investment opportunity set available to its peers. The benchmark captures nearly 100% of the investable market cap of the U.S. stock market. Few indexes are more representative than that. Casting a wide net and weighting by market cap [e.g. owning more of a stock that has a higher total market value] puts the fund in a position to let its low fee shine through and give it a lasting edge versus category competitors.
>
> Diversified
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> Diversification is the only free lunch in investing. In the case of index funds with zero fees, and those like VTI and others that effectively earn back their fees through a combination of securities lending and portfolio management savvy, investors will find the closest thing there is to a free lunch in the realm of investing. Diversifying broadly also reduces the likelihood of errors of omission. Over the long haul, a small minority of stocks account for the bulk of the market's returns. More-inclusive indexes have greater odds of owning the market's big winners.

Transparent

I can’t think of many examples of things inside or outside the realm of investing where complexity and opacity have proved superior to simplicity and transparency. The best indexes are simple and transparent. If you crack open an index methodology document and it reads like the pilot’s manual to a Klingon warship, that’s a red flag.

Turnover-Conscious

Turnover [the sale of one security and purchase of a replacement] has explicit (commissions, bid-ask spreads) and implicit (market impact) costs. The best indexes are conscious of these costs and take steps to keep them under wraps. For example in 2018, CRSP’s U.S. equity indexes transitioned from rebalancing in one day to spreading rebalancing over a five-day period. This was done in an effort to minimize market impact. Other indexes take measures to either slow the rate of turnover or similarly spread it over a longer period of time—to the benefit of index fund investors.

IV. The U.S. Market is Ready for a Low-Carbon Economy:

From a short article with map (not reproduced) in the December/January 2019 *Morningsta*r magazine:

“The United States is the world’s second-heaviest emitter of carbon dioxide, behind only China. Yet a transition to a low-carbon economy is inevitable—and the U.S. [stock} market is well-positioned. Carbon Risk, assigned by Sustainanalytics, gauges the degree to which corporate value is vulnerable to the effects of climate change and the shift away from fossil fuels. Energy companies face the highest levels of carbon risk, and energy stocks make up less than 8% of the Morningstar US Market Index. On the low carbon-risk side are healthcare and technology, which represent more than one third of U.S. equity capitalization. Russia, with nearly 60% of market capitalization devoted to the energy sector, has the world’s highest carbon risk.

[selected countries from table and their carbon risk rankings]:

Russia	37.38
Canada	18.74
Austria	17.27
Italy	16.98
UK	14.29
Germany	11.28
France	10.47
US	10.15”

Smartt comment: The threats of war and inflation have energy companies riding high, generally, right now. But long term I believe carbon risk to be a factor in the future profitability of companies, and national economies.

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