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I. Inflation? Not Where Investment Fees Are Concerned:

In an article by Stan Choe of Associated Press, published in the *Knoxville News Sentinel* (July 22nd edition):

> "This year's crazy market swings prove once again how little control we have over our investments.
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> Stocks are down about 20% from their peak early this year, and along the way they've zoomed erratically in every direction. A seemingly solid gain for stocks on Wall Street in the morning can quickly give way to losses in the afternoon, for example, while the S&P500 has followed up 10 losing weeks in 11 with a series of flip-flops.
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> Even bonds, which are supposed to be the stable part of any investor's portfolio, are seeing prices swing sharply with each data point on inflation and expectations for interest rates.
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> In such times, it can pay to focus on just what you can control. For investors, that often means avoiding high fees. By keeping expenses low, investors can hold on to more of whatever returns their investments end up making.
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> Investors are largely heeding this advice, and that's forcing the investment industry to cuts its fees in order to attract customers.
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> Last year investors paid an average of 0.40% of their investments in mutual funds and ETFs as fees, down from 0.42% in 2021 [error in article, should be 2020 here], according to a recent study by Morningstar. That's nearly $6.9 billion in savings. The power of low fees also compounds through the years, magnifying the effect.
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> …The continued migration from higher-expense funds to cheaper ones has been a big reason the average expense ratio paid by fund investors has dropped more than 50% over the last 20 years. Lower-fee options include index funds, which can charge nearly nothing because they try only to mimic the S&P 500 or another index, as well as some actively managed funds where manager do try to beat the index."

Smartt comment: Not stated in the article, but noteworthy, is that the main force behind the two decade decline in investment fees has been Jack Bogle's Vanguard Group, the first company to offer index funds to individual consumers. And note that Vanguard products continue to be far below that industry average. The five Vanguard products I use routinely to hold client investments have a weighted average per year, not of 0.40%, but of just 0.05%.

See Section III (below) for the record of various Vanguard investment mutual funds used past and present. Further, Vanguard fees have declined over the years as Vanguard has gotten larger, such declines passed along to us as investors because a mutual ownership structure means that we investors own Vanguard. Because Vanguard products are largely very low cost and broadly diversified, they survive comparison with the rest of the industry.

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 June 30, 2022	Clients	John Smartt
Money Market Funds	2.8%	1.3%
Bond Funds	26.7	18.3
Stock Funds	70.5	80.4
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 June 30, 2022	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**-21.4%**	(76)	**10.5%**	(44)	**12.5%**	(31)
Tax-Managed Capital Appreciation Admiral	**-20.9%**	(67)	**11.1%**	(25)	**13.0%**	(11)
Tax-Managed Small Capitalization	**-18.8%**	(34)	**7.3%**	(14)	**11.2%**	(4)
REIT Index Admiral	**-20.5%**	(64)	**5.7%**	(52)	**7.5%**	(33)
Total Int'l Stock Index Admiral	**-18.2%**	(33)	**2.7%**	(32)	**5.2%**	(48)
Balanced Index Admiral	**-17.1%**	(78)	**6.9%**	(15)	**8.2%**	(15)
Total Bond Market Index Admiral	**-10.4%**	(44)	**0.8%**	(36)	**1.5%**	(48)
Int.-Term Invstmt.-Grade Bond Admiral	**-12.7%**	(18)	**1.2%**	(50)	**2.3%**	(63)
High–Yield Corporate Bond	**-12.5%**	(34)	**1.8%**	(35	**4.0%**	(31)

For comparison, here are several stock and bond benchmarks:

Periods ended June 30, 2022	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**-20.0%**	**11.3%**	**13.0%**
Russell 2000 (small stocks)	**-23.4%**	**5.2%**	**9.4%**
MSCI World Index	**-20.5%**	**7.7%**	**9.5%**
Bloomberg US Aggregate Bond Index	**-10.3%**	**0.9%**	**1.5%**
ICE BofA US High Yield Master TR (bond index)	**-14.0%**	**2.0%**	**4.4%**

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. The Four Horsemen of Investing:

From an online article by Don Phillips, the editor of Morningstar, downloaded May 9, 2022:

> "Complexity, concentration, leverage, and illiquidity are the four horsemen of the investor apocalypse, perennial threats that wreak havoc on portfolios and undermine even the best-laid plans of diligent investors and their advisors. Unfortunately, these same four horsemen are also profit generators for Wall Street, thus creating a continual tug of war in investment management between what's advantageous for the provider and what's beneficial for the investor.
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> Consider Jack Bogle's beloved traditional index fund. This investment averts the four horsemen at every turn. It is simple, diversified, unleveraged, and highly liquid. In contrast, the typical hedge fund is complex, concentrated, often leveraged, and generally illiquid. The differences are reflected in their pricing. The perceived sophistication in the hedge fund allows its purveyors to charge higher prices, while the simplicity of the index fund commoditizes the offering and demands a low price. That's why cost is such an effective first-stage screen in selecting investments. Not only do lower-cost investments save money, but they also keep the four horsement at bay, this upping the odds of investor success.
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> The four horsemen provide a useful rubric of evaluating an investment's potential to serve investors well. Given this backdrop, it was dismaying to read the agenda of a recent high-level gathering of asset managers. The topics included alternative investments, the asset-gathering success of a concentrated active mutual fund, and the emergence of a new generation of brokerage firm that makes trading stocks seem like a game but still carries the traditional brokerage practice of offering margin accounts. Each of these activities summons one or more of the horsemen.
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> Alternative investing was a central topic. The theoretical benefits of alternatives entice. Something that zigs while the rest of a portfolio zags could protect investors in tough times. But after more than two decades of experimentation with alternatives in the retail mutual fund space, there is little evidence that investors have benefited. Alternatives get promoted not at peaks [of the stock market] where they might protect from declines, but at troughs where they limit participation in rebounds. As former Clipper [mutual fund] manager Jim Gipson noted, the popularity of an investment idea approaches its zenith as its utility approaches its nadir. Such has been the case with retail alternatives, where all four horsemen have at times undermined results. Even professionally managed target-date funds have failed to demonstrate how alternative investments can be deployed in a portfolio to provide tangible after cost benefits for investors.

That won't stop Wall Street from trying. The jaw-drop slide of the conference compared the market capitalization of Blackstone (BX), which specializes in alternative investments, with BlackRock (BLK), a dominant player in more traditional and, especially, indexed funds. The big takeaway was that even though Blackstone manages a smaller amount of client assets, it is accorded a higher market capitalization. The lesson is clear: The easier path to success [in investment management] isn't playing the scale game of managing low-cost, unleveraged, broadly diversified investment options, but through launching pricier, more complex fare.

Another hot topic was a retail brokerage where investors have been chasing meme stocks. I'm all for greater access to markets, but I shudder to think of the real-world consequences of frequent trading in stocks of which you've done little to no research. The tax-filing implications are a complexity headache. A bigger concern, though not unique to any particular brokerage, is the widespread use of leverage [investing with borrowed money]. If a Yahoo Finance-Harris poll is to be believed—and the results seem stretched to me—43% of retail investors leverage their investments through options or margin accounts. This will not end well. Public mutual funds have a rotten record using leverage—and they are the pros. Retail investors are unlikely to fare better. While much has been made of the liquidity issue over GameStop (GME) when trading was temporarily curtailed, the horsemen of concentration, tax complexity, and leverage are equally ominous.

The four horsemen also loom large in…private equity. Complexity, concentration, leverage and illiquidity are all in play here. While there's much theoretical appeal to giving smaller investors access to private markets, the tug of war to determine how much of these benefits will flow to investors after costs has yet to play out. If special-purpose acquisition companies offer foreshadowing, small investors' odds look grim. Private equity has the qualities that make it something Wall Street will be eager to sell; it will take great skill to make it something wise investors should buy.

Smartt comment:

Although occasionally tough reading for investors who aren't all that familiar with terms of the investment management industry, I found this article a great "nail-pounding" summary of several examples in which most all of Wall Street does NOT have its customers, we investors', best interests at heart. Thank goodness, again, for Vanguard's mutual ownership structure which tends to keep the interests of we the investor and Vanguard the provider in congruence.

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