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

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I. A Trillion Dollars in Savings:

The following are excerpts from The Bogle Effect: How John Bogle and Vanguard Turned Wall Street Inside Out and Saved Investors Trillions, a book by Eric Balchunas:

> "…the amount of money that Vanguard's rise has saved investors is pretty astonishing…The sum of the savings is currently more than $1 trillion and growing exponentially. This is money that would have otherwise belonged to the financial industry—and why I sometimes say Vanguard's gain is Wall Street's pain. I'll walk you through how I came up with those numbers.
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> First, investors have saved about $300 billion since Vanguard launched its first fund in 1976 via lower expense ratios, which is the term for the percentage of the assets in the fund that the fund company takes each year. This is calculated by assuming what those assets would currently be charged if Vanguard didn't exist. That spread has varied over the years, but generally it is about 0.60 percent more. That may seem small, but when it is multiplied by the trillions in Vanguard funds, it suddenly becomes big.
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> This number doesn't even include sales loads, which are onetime distribution fees [sales charges] (usually around 5 percent) that an investor pays to a broker. While Vanguard funds do not have loads, I didn't include them in this calculation because that is part of the shift in how advisors get paid…But those savings could arguable be added to the total as well.
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> Investors save another $250 billion in the form of lower trading costs by having very minimal portfolio turnover. Every time a mutual fund manager makes a trade, it costs a tiny amount. Generally speaking, every additional 1 percent in turnover comes with 0.01 percent in extra costs. Active mutual funds have an average turnover that is approximately 50 percentage points higher than that of a Vanguard fund. Again, we multiply that difference by Vanguard's assets each year.
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> Last, but certainly not least, there is the Vanguard Effect, or the company's influence on other financial firms to lower their fees in order to better compete…The Vanguard Effect has largely come at the expense of Vanguard's own assets since that is money that probably would have gone to the company but is now going to its competitors' low-cost funds instead.
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> Let's try to calculate the savings from the Vanguard Effect starting with active funds, which have seen fees drop from 0.99 percent in 2000 (when Vanguard and indexing started to get popular) to 0.66 percent today. Again, that seemingly small decline adds up because it is multiplied by trillions each year. That's about $200 billion in total savings from Vanguard's influence on active mutual funds…

Today Vanguard has about 50 percent market shares of the $11 trillion in total passive fund assets, but it influenced almost all the rest. And those non-Vanguard cheap passive funds have an asset weighted average fee of about 0.18 percent. If there were no Vanguard, this money would also likely be paying the active mutual fund rate. Thus investors get another $250 billion in savings via the Vanguard Effect.

"the scale of Vanguard and Bogle's relentless focus on costs have taken $1 trillion out of the claws of Wall Street and stuffed it into the pockets of everyday Americans…That figure is likely to triple in the next ten years. The equivalent of 95 million years of college tuition, 35 million down payments on the average American home, or 27 million years of private nursing home care, all saved by the simple idea that fund companies should pass along economies of scale rather than arrogating the proceeds to themselves.'

Smartt comment: I feel both proud and very lucky to have found Vanguard before it "started to get popular."

In 1989 my retirement investments entered Vanguard as part of the second $1 billion to be invested in Vanguard. Now Vanguard takes in "new money" to the tune of about $1 billion before lunch and another $1 billion after lunch of each business day.

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 September 30, 2022	Clients	John Smartt
Money Market Funds	2.0%	0.0%
Bond Funds	27.9	18.1
Stock Funds	70.1	81.9
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 September 30, 2022	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**-24.9%**	(69)	**8.5%**	(41)	**11.3%**	(29)
Tax-Managed Capital Appreciation Admiral	**-24.5%**	(61)	**9.1%**	(24)	**11.8%**	(9)
Tax-Managed Small Capitalization	**-23.2%**	(44)	**4.9%**	(26)	**10.1%**	(6)
REIT Index Admiral	**-29.3%**	(67)	**3.1%**	(54)	**6.2%**	(35)
Total Int'l Stock Index Admiral	**-26.8%**	(33)	**-0.7%**	(38)	**3.3%**	(49)
Balanced Index Admiral	**-20.8%**	(68)	**5.3%**	(19)	**7.3%**	(15)
Total Bond Market Index Admiral	**-14.6%**	(41)	**-0.3%**	(35)	**0.8%**	(41)

Int.-Term Invstmt.-Grade Bond Admiral	**-16.7%**	(18)	**0.0%**	(44)	**1.5%**	(60)
High–Yield Corporate Bond	**-13.3%**	(34)	**1.3%**	(42)	**3.5%**	(31)

For comparison, here are several stock and bond benchmarks:

Periods ended September 30, 2022	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**-23.9%**	**9.2%**	**11.7%**
Russell 2000 (small stocks)	**-25.1%**	**3.6%**	**8.6%**
MSCI World Index	**-25.4%**	**5.3%**	**8.1%**
Bloomberg US Aggregate Bond Index	**-14.6%**	**0.3%**	**0.9%**
ICE BofA US High Yield Master TR (bond index)	**-14.6%**	**1.4%**	**3.9%**

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 than 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. My "Guru" – Jeremy Siegel:

From an article in *The Pennsylvania Gazette* (the magazine of the University of Pennsylvania Alumni Association), fall/winter 2022 edition, titled: "The Icon in Winter:"

> "Next to Joseph Wharton himself, there's arguably no one who symbolizes the Wharton School [the University of Pennsylvania's business school] more than emeritus finance professor Jeremy Siegel…
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> He published Stocks for the Long Run in 1994, a year in which the Dow Jones Industrial Average finished at 3,834. Over the next six years the Dow tripled in value on the back of the dot-com boom, and the stock market became a national obsession. Stocks for the Long Run, which showed that equities [stocks] had historically outperformed bonds and made a compelling case for buying and holding stocks, tapped into the enthusiasm for the market but also helped stoke it.
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> Despite his reputation as a market maven, Siegel was never tempted to jump into the financial world. Years ago, he agreed to manage money for a few close friends but found it unpleasantly stressful. It was one thing to put his own money at stake, it was quite another to take risks with other people's, and he found it hard to stomach the market's oscillations. 'It upset me too much,' he recalls. His takeaway was that he wasn't cut out for the life of a professional money manager. 'I don't have that emotional make up,' as he puts it.

…But Siegel has always emphasized that the fact stocks have historically performed well doesn't mean they'll always perform well. There have been plenty of bear markets on the road to Dow 33,000, and lots of periods of nerve-jangling volatility. And while Siegel's long-term bullishness proved prescient, he's the first to admit he's no seer and has been fooled by the market. He says his worst mistake in all these decades of market-watching was not anticipating the 2008 global financial meltdown. 'I did not see the financial crisis coming," he says. "I did not know the banks held all that bad paper.'"

Smartt comment: Siegel arrived at Wharton several decades after I graduated. He taught finance classes for more than 3 decades. I have seen him speak at alumni/homecoming weekends and at the annual TDAmeritrade conference.

His most basic finding was that stocks, over more than 200 years of US economic history have, in each of his 60 plus year periods, returned within 1/10 percentage point per year of 6.6 percent plus inflation. Good quality bonds returned only between two and two and one-half percent plus inflation per year. Commodities [gold, platinum, pork, etc.] returned inflation plus ZERO.

The first edition of his book only mentioned one mutual fund, Vanguard's Total Stock Market Index fund. At the time it was my largest investment holding. It has continued to be the largest total holding of my client base, by far. By the second edition he had begun to consult with another mutual fund company and so dropped the reference to the Vanguard fund.

He has been a very strong, consistent bull. He generally believes that the stock market, in spite of whatever storm clouds are on the horizon, should be one's basic long term investment. His book even advocates, in some situations, increasing long term returns by borrowing money to put into the stock market. (I do not recommend this as a reasonable use of leverage.)

If you like this stuff, it is my number one recommendation as the best book to read. It early provided information which shaped my ability to be what he chose not to be—a professional money manager!

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