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I. Dave Ramsey Has Blunt Words About What You Can Control:

From an online article of the same name by Jeffrey Quiggle dated May 3, 2023:

> "A young questioner named Chris, according to KATR News in Phoenix, AZ., asked Ramsey a lofty question…
>
> 'Dear Dave,' he wrote, 'I'm a senior high school…should I be worried about the national debt being over $30 trillion, and should this affect a person's overall personal financial strategy?'

Ramsey replied:

> 'You're a thoughtful young man…I want you to remember one very important thing. What happens in your house carries much more weight in your life than what happens in Washington, D.C., or the White House.
>
> That means being personally responsible for yourself and your money…Live on a written budget, save money and stay away from debt. If you do those things, I think you are going to be okay.'
>
> Ramsey also expanded a bit on his own personal take on the subject…
>
> 'I'm with you on this when it comes to being concerned…I think the entire situation represents a lack of discipline on the American people's part and on the part of our elected officials. It's pitiful, and it's outrageous. Now, does it affect my investing? Not one bit. I invest based on good long-term track records, because the national debt has been out of control for as long as I have been alive.
>
> Here's the thing. If everything did finally fall in on itself, there's nothing at all you could've invested in from a financial standpoint that would protect you. So, if I were you, I wouldn't worry too much about it, or walk around scared that I was suddenly about to lose everything."

Smartt comment:

Ramsey has excellent advice to follow for those mired in debt, he has helped untold thousands to regain financial control of their lives. But, beware of following his advice regarding employing an investment advisor. Those advisors pay Ramsey handsomely for the privilege of getting on his recommended list. Most of those advisors earn back their Ramsey-connected advertising costs by charging the client much more than many would consider reasonable, or they recommend investment products with high fees and/or high purchase commissions. It's better to get out of difficulty and then minimize investment costs, while diversifying broadly. If you have questions about your investments, please do not hesitate to contact me.

It is my opinion that, by far, the most relevant statistic when looking at past investment return records is the level of investment fees and other costs (e.g. income taxes on capital gains distributions, costs of portfolio turnover, etc.). Lower cost is generally better.

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, 2023	Clients	John Smartt
Money Market Funds	1.0%	0.6%
Bond Funds	28.1	15.4
Stock Funds	70.9	84.0
Totals	100.0%	100.0%

Remember each of us has different goals and needs, and our asset allocation should fit us and our family.

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, 2023	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**12.3%**	(38)	**9.1%**	(46)	**11.2%**	(35)
Tax-Managed Capital Appreciation Admiral	**13.1%**	(22)	**9.8%**	(24)	**11.8%**	(13)
Tax-Managed Small Capitalization	**0.8%**	(79)	**3.3%**	(59)	**8.1%**	(12)
REIT Index Admiral	**-5.4%**	(77)	**2.4%**	(56)	**5.5%**	(49)
Total Int'l Stock Index Admiral	**5.0%**	(69)	**2.7%**	(55)	**3.6%**	(54)
Balanced Index Admiral	**6.9%**	(19)	**5.7%**	(20)	**7.3%**	(16)
Total Bond Market Index Admiral	**-0.9%**	(48)	**0.1%**	(36)	**1.1%**	(38)
Int.-Term Invstmt.-Grade Bond Admiral	**0.4%**	(51)	**1.1%**	(34)	**2.0%**	(64)
High–Yield Corporate Bond	**4.1%**	(84)	**2.7%**	(40)	**3.9%**	(23)

For comparison, here are several stock and bond benchmarks:

Periods ended September 30, 2023	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**13.1%**	**9.9%**	**11.9%**
Russell 2000 (small stocks)	**2.5%**	**2.4%**	**6.6%**
MSCI World Index	**11.1%**	**7.3%**	**8.3%**
Bloomberg US Aggregate Bond Index	**-1.2%**	**0.1%**	**1.1%**
ICE BofA US High Yield Master TR (bond index)	**6.0%**	**2.8%**	**4.2%**

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 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. It comprises some of my personal bond holdings.

If you have questions about your investment asset allocation, please contact me.

<u>IV. Time for Spandex? Investors are Returning to Hedge Funds; That Maybe Unwise:</u>

From an October 26, 2023 article in *The Economist Magazine* article of the same name:

> "Some superheroes are useless when times are good. If Gotham was a safe and pleasant place, Batman would probably just spend his days relaxing in a mansion upstate. Superman only ducks into a phone booth to reveal his blue-and-red lycra when the bad guys are holding someone up at gunpoint.
>
> For the best part of a decade, financial markets were mostly serene. The S&P 500 index…climbed steadily higher from 2010 to 2020. With expected interest rates edging lower and lower, bond prices also floated mostly up. Investors worried about missing out on the bull market of a lifetime, not about whatever risks lay around the corner. The circumstances were thus abysmal for institutions that aim to be useful in turbulent times, such as hedge funds. They often seek returns that are uncorrelated with the broader stockmarket…In volatile markets, a superhero manager—call him hedge-man—is supposed to swoop in and protect investors from losses.
>
> After a torrid decade, things are now looking better for hedge-man. Money has, on net, flowed into [hedge] funds in every quarter this year. If business continues at the same pace, 2023 will be the best year for hedge funds since 2015. The total sum invested in [hedge] funds is now more than $4trn [trillion], up from $3.4 trn at the end of 2019.
>
> What to make of hedge-man's return? Maybe investors are heavily influenced by recent events. Last year hedge funds beat the market. The Barclays Hedge Fund index, which measures returns across the industry, net of fees, lost a mere 8%, while the S&P 500 lost a more uncomfortable 18%. Yet hedge funds have in aggregate heavily underperformed American equity indices in all other years

since 2009, returning an average of just 5% a year across the period, against a 14% gain for the broader market. In 2008 Warren Buffett, a famous investor, bet a hedge-fund manager $1m[million] that money invested in an index fund would outperform that in a hedge fund of his choosing over the next decade. Mr. Buffett won comfortably.

The renewed enthusiasm for hedge funds might also suggest a deeper disquiet: perhaps people have become convinced the easy returns of the 2010s are now well and truly a thing of the past. Most investment portfolios have been buffeted by the end of easy monetary policy. As Freddie Parker, who allocates money to hedge funds for clients of Goldman Sachs, a bank, has noted, the performance of hedge funds tends to look healthier during periods of rising [interest] rates, as these are generally accompanied by a 'more challenging environment' for asset returns. Hedge fund performance has also been stronger during periods in which interest rates were high or volatile, such as the 1980s or mid-2000s.

Of course, high interest rates do not necessarily mean the good old days are back for hedge-man. Today's markets are higher-tech and lightning quick. Information spreads across the world just about instantaneously and is immediately incorporated into prices by high-frequency trading algorithms. By contrast, in the 1980s it was still possible to gain an edge on your rivals by reading the newspaper on the way into the office. Even though many hedge funds shut their doors in the 2010s, there are still far more around than there were in the 1980s or 1990s. Competition—for traders and for trades—is much stiffer than it was.

It is understandable that, when faced with a world in which interest rates are high and volatile, investors seek the return of those who might spare them from peril. But consider how Mr. Buffett's bet played out. In 2008 a woeful year for stocks, his index was handily beaten by hedge funds. It was the out performance over the following nine years that won him the wager. 'It is always darkest before the dawn,' says Harvey Dent, a rival to Batman, in one of the films, 'and, I promise you, the dawn is coming.' When it arrives, investors may wish they had stuck with their index funds."

Smartt comment:

We are often tempted to take some action, any action, when markets look dark and our investments have lost value. Founder of Vanguard John Bogle's favorite phrase for such times was "Stay the course." It's often better to do nothing than to act in panic when times appear to be dark.

For example a client called me the day after a Presidential election that didn't go to suit her. She said "Sell everything, I'm going to convert it to gold, bury it in the back yard, and let my dog guard it." For the next several minutes I attempted to talk her down off of the edge of the cliff by noting that, although our economy is not a perfect capitalist economy, the economy does have a tremendous amount of momentum which is totally independent of whoever sits on either end of Pennsylvania Ave. in D.C.

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