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Client Newsletter Volume XXIX Number 3 February, 2024

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I. Cheaper to Rent or to Buy?:

From *The Economist* magazine dated December 2, 2023 (subtitle: We crunch the house-price data across every county—with surprising results):

> "For years new homebuyers in American have enjoyed lower housing costs than renters. Between 2011 and 2020 the monthly mortgage payment on a typical house was 12% lower than the rental for a similar property (assuming a deposit of 13%, the current national average). A steady rise in home values, worth roughly 7% a year over the past decade, also ensured that buyers built equity in their homes. But…today the choice between buying and renting looks different.
>
> Blame high house prices and soaring mortgage rates. Since 2010 nominal house prices have climbed roughly 40%, while the average 30-year fixed-rate mortgage rose from 3.1% to 7.3%. Nominal mortgage payments have more than doubled since 2020. By our calculations, for more than 89% of Americans renting a two-bedroom place is now cheaper than buying a comparable property. Three years ago the figure was 16%.
>
> Our calculations do not cover long-term costs and benefits, such as outlays on maintenance, the asset value of a home once the mortgage has been paid off, or the opportunity cost of investing in a deposit for a house rather than, say, the stockmarket. But they do show how the relative costs of buying and renting have been upended in much of America. To restore the ownership advantage that prevailed in the 2010s would require dramatic shifts in market conditions: house prices would have to tumble by one-third, average mortgage rates would have to fall to 3.2% or rental costs rise by at least 50%.
>
> None of these outcomes seems likely. House prices are not expected to crash. Goldman Sachs, a bank, forecasts that they will appreciate by 1.9% in 2024 and 2.8% in 2025. Mortgages are expected to stay pricy too. Goldman predicts that 30-year mortgage rates will dip, but not by much: to 7.1% by the end of 2024 and 6.6% by the end of 2025. Rents, meanwhile, seem unlikely to climb much, owing to a glut of newly built apartments and weak demand.
>
> Even in the few markets where homes look relatively cheap—such as Baltimore, Philadelphia and the Bronx, in New York City—most homeowners are reluctant to sell. Nearly all have locked in mortgage rates that are much lower than are those available to new borrowers. More than four in five existing mortgage-holders pay an interest rate under 5%...So market conditions seem likely to put off millions of potential buyers and sellers of houses. For many, renting will increasingly look like the affordable option."

Smartt comment:

There are, of course, many non-economic factors involved in the rent versus buy decision. Generally, a house represents stability, and an apartment represents flexibility.

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 December 31, 2023	Clients	John Smartt
Money Market Funds	1.1%	1.1%
Bond Funds	27.4	14.1
Stock Funds	71.5	84.8
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 December 31, 2023	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**26.0%**	(33)	**15.1%**	(40)	**11.4%**	(33)
Tax-Managed Capital Appreciation Admiral	**26.6%**	(21)	**15.7%**	(20)	**11.9%**	(12)
Tax-Managed Small Capitalization	**15.9%**	(61)	**1.1%**	(51)	**8.6%**	(10)
REIT Index Admiral	**11.8%**	(52)	**7.3%**	(43)	**7.4%**	(44)
Total Int'l Stock Index Admiral	**15.5%**	(69)	**7.3%**	(61)	**4.1%**	(50)
Balanced Index Admiral	**17.6%**	(15)	**9.6%**	(20)	**7.7%**	(15)
Total Bond Market Index Admiral	**5.7%**	(44)	**1.1%**	(44)	**1.8%**	(35)
Int.-Term Invstmt.-Grade Bond Admiral	**8.6%**	(50)	**2.5%**	(61)	**2.7%**	(62)
High–Yield Corporate Bond	**11.6%**	(67)	**5.1%**	(35)	**4.3%**	(20)

For comparison, here are several stock and bond benchmarks:

Periods ended December 31, 2023	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**26.3%**	**15.7%**	**12.0%**
Russell 2000 (small stocks)	**16.9%**	**10.0%**	**7.2%**
MSCI World Index	**23.8%**	**12.8%**	**8.6%**
Bloomberg US Aggregate Bond Index	**5.5%**	**1.1%**	**1.8%**
ICE BofA US High Yield Master TR (bond index)	**13.5%**	**5.2%**	**4.5%**

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 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. It comprises some of my personal bond holdings.

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

IV. Passive Investing Rules Wall Street Now:

From a January 18, 2024 online Apple News article by Jeff Cox of CNBC.com. Full title of the article continues; "topping actively managed assets in stock, bonds and other funds:"

> "Passive investment products have long been pulling in the lion's share of money from investors, but as 2023 came to a close they achieved a milestone: holding more assets than their actively managed counterparts.
>
> The total assets under management in exchange-traded funds and notes along with passively managed mutual funds reached a combined $13.29 trillion at the end of December, nudging above the $13.23 trillion held in active assets according to Morningstar [a leading investment information provider].
>
> While passively managed stock funds long ago took the lead, this was the first time that passively managed products surpassed active across all asset classes combined.
>
> 'It's been a long time coming,' said Nicholas Colas, co-founder of DataTrek Research. 'Last year with equities it was a very difficult year for active outperformance. It was a year when you had an initial burst of enthusiasm for a few months, then a pullback and then a rush at the end. Kind of a nightmare scenario for an active manager.'
>
> Indeed, just in large-cap blended funds [e.g. containing both stocks and bonds], passive funds raked in a net $192.8 billion for the year while active funds lost $48.6 billion, Morningstar reported. Large-cap growth funds saw a net $38.3 billion move to passive funds while active lost $91.2 billion.

> That movement in money accompanied a rough year for stock pickers. Just 38% of large-cap active funds outperformed their Russell index benchmarks, down from 47% in 2022 although around the long-term average, according to Bank of America.
>
> In contrast, passive funds, which primarily track market indexes such as the S&P 500, Dow Jones Industrial Index and Nasdaq Composite, had a strong year thanks to a big performance from the broader market. The S&P alone had a 24% return for the year…
>
> Still, there could be hope ahead for active management if market conditions change in 2024.
>
> 'As far as what a stock-pickers market looks like, it's basically a low-volatility, low-correlation market without a lot of drawdowns that instill fear into money manager and force them to sell at the bottom,' Colas said. 'This could be that kind of year.'"

Smartt comment:

Being a very early adopter of indexed investing (I bought my first Vanguard indexed stock fund in 1989), it's hard not to crow a bit about the continued increase in the popularity of such investments.

Warning! The last two paragraphs of the above article are attempting to be predictive. Mr. Colas states that indexing will be likely to lose if certain narrowly defined stock market conditions occur this year. That is not only a low probability occurrence, but ignores the more important, fundamental reason why index funds lead the long term race to investment success—significantly lower cost. Thus a *Kiplinger Magazine* article found online notes:

> "Index mutual funds and…ETFs have done better, on average, than most actively manage funds for years. The Vanguard 500 Index Fund (VOO), which mirrors the S&P 500 has outpaced 76% of all active large-company U.S. stock funds over the past 15 years."

So performance by the active managers as a group, during some narrowly defined, not often recurring year will almost certainly not beat indexing in the long run.

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