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I. <u>Problems on the Horizon:</u>

From *The Economist* magazine dated March 2, 2024 (subtitle: Stockmarkets are booming. But the good times are unlikely to last):

> "Everywhere you look, stockmarkets are breaking records. American equities, measured by the S&P 500 index, hit their first all-time highs in more than two years in January, surged above 5,000 points in February and roared well above that level on February 22nd when Nvidia, a maker of hardware essential for artificial intelligence (AI), released spectacular results…
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> This is quite a turnaround. Stocks slumped in 2022, when faced with fast-rising interest rates, and wobbled last March [2023], during a banking panic, Now, though, both episodes look like brief interruptions in equities' long march higher. Despite middling economic growth and the covid-19 pandemic, stockmarkets have offered annual returns, after inflation, of more than 8% a year since 2010, including dividends (cash payments to shareholders funded by company profits) and capital gains (when the price of a share increases). These returns have been better than those produced by bonds and housing. Indeed, they have been better than those produced by just about any other asset class…
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> Almost 60% of Americans now report owning stocks, the most since reliable data began to be collected in the late 1980s. Many of them, as well as professional investors, have a question. Is the stock market surge sustainable—or the prelude to a correction?
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> For as long as stockmarkets have existed, there have been those predicting an imminent crash. But today, in addition to the usual doomsaying, a chorus of academics and market researchers argues that it will be tough for American firms to deliver the long-term growth required to reproduce extra-ordinary recent stock market returns…
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> That is, in part, because valuations are already at eye-popping levels…
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> Market of mirrors:-
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> …much of this strong performance is, in a sense, a mirage. Politicians have reduced the tax burden facing corporations. From 1989 to 2019 the effective corporation-tax rate on American firms dropped by three-fifths. Since companies were giving less money to the state, corporate profits rose, leaving them with more money to pass on to shareholders. Meanwhile, over the same period,

> borrowing became cheaper. From 1989 until 2019 the average interest rate facing American corporations fell by two-thirds…
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> Now companies face a serious problem. The decades-long slide in interest rates has reversed. Risk-free interest rates across the rich world are about twice as high as they were in 2019. There is no guarantee that they will fall back to those lows—let alone decline fairly steadily, as they tended to do in the decades before the pandemic…
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> Many investors hope that AI will ride to the rescue. Surveys of bosses suggest great enthusiasm for tools that rely on the technology. Some firms are already adopting them, and claim they are producing transformative productivity gains. If deployed more widely, the tools may allow companies to cut costs and produce more value, juicing economic growth and corporate profits.
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> Play the fool:-
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> Needless to say, this is a heavy burden for a technology that is still nascent. Moreover, technological developments are far from the only trend that will affect business in the coming years. Companies face an uncertain geopolitical climate, with global trade flat or declining depending on the measure. In America both [political] parties are sceptical of big business. The battle against inflation is also not yet won: interest rates may not fall as far or as fast as investors expect. In recent decades you would have been foolish to bet against stockmarkets—and timing a downturn is almost impossible. But the corporate world is about to face an almighty test."

Smartt comment:

Reports and opinions continue to differ all over the lot. Last week there was a brief Morningstar (a very large provider of mutual fund and other market data) report that its research staff's index of the US stock market had determined that stocks were then 2% undervalued.

The best long term plan, I believe, is to find an asset allocation plan that has a solid chance of meeting the individual/family's long-term goals and to stick with it through market ups and downs. If the market is worrying you, give me a call or send an email.

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, 2024	Clients	John Smartt
Money Market Funds	1.1%	4.5%
Bond Funds	27.1	14.7
Stock Funds	71.8	80.8
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.

II. 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, 2024	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**10.0%**	(60)	**14.2%**	(47)	**12.3%**	(36)
Tax-Managed Capital Appreciation Admiral	**10.3%**	(50)	**14.9%**	(27)	**12.8%**	(15)
Tax-Managed Small Capitalization	**2.5%**	(89)	**9.2%**	(58)	**8.8%**	(16)
REIT Index Admiral	**-1.2%**	(57)	**3.7%**	(48)	**6.2%**	(48)
Total Int'l Stock Index Admiral	**4.3%**	(75)	**6.2%**	(62)	**4.4%**	(53)
Balanced Index Admiral	**5.7%**	(35)	**8.8%**	(22)	**8.1%**	(15)
Total Bond Market Index Admiral	**-0.8%**	(77)	**0.4%**	(44)	**1.5%**	(40)
Int.-Term Invstmt.-Grade Bond Admiral	**-0.2%**	(59)	**1.6%**	(44)	**2.5%**	(58)
High–Yield Corporate Bond	**0.7%**	(96)	**3.7%**	(50)	**4.1%**	(24)

For comparison, here are several stock and bond benchmarks:

Periods ended March 31, 2024	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**10.6%**	**15.0%**	**13.0%**
Russell 2000 (small stocks)	**5.2%**	**8.1%**	**9.4%**
MSCI World Index	**8.9%**	**12.1%**	**8.6%**
Bloomberg US Aggregate Bond Index	**-0.8%**	**0.4%**	**1.5%**
ICE BofA US High Yield Master TR (bond index)	**0.0%**	**4.3%**	**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. Some individual funds have not met this standard. The comprehensive Vanguard Balanced Index Fund is, in effect, comprised of 60% Total Stock Market Index Fund and 40% Total Bond Market Index fund. Note that for the last 10 years this fund is in the top 15th percentile of balanced funds; Vanguard continues to perform well overall.

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. Too efficient:

From *The Economist* magazine dated March 2, 2024 (subtitle: Snoozing investors. Having killed off stockpickers, are passive funds behind market mania?):

> "…the dystopia will probably be avoided: markets would cease to function after the last opinionated investor turned out the lights. However, that does not stop academics, fund managers and regulators from worrying about unthinking money…Some analysts are pointing fingers at passive investors [index funds are also known as passive funds] for inflating the value of stocks. Others are predicting its decline…
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> Index funds trace their origins to the idea, which emerged during the 1960s, that markets are efficient. Since information is instantaneously 'priced in', it is hard for stockpickers to compensate for higher fees by consistently beating the market. Many academics have attempted to untangle the effects of more passive buyers on prices.
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> The clearest casualty of passive funds has been active managers. According to research firm GMO, a fund-management firm, an active manager investing equally across 20 stocks in the S&P 500 index, and making the right call most of the time, would have had only a 7% chance of beating the index last year. Little wonder that investors are directing their cash elsewhere. During the past decade the number of active funds focused on large American companies has declined by 40%. According to Bank of America, since 1990 the average number of analysts covering firms in the S&P 500 index has dropped by 15%. Their decline means fewer value-focused soldiers guarding market fundamentals.
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> Fees charged by active managers have declined significantly; perhaps election-year volatility will even help some outperform markets. A few might gather the courage to bet on market falls. If they are right, their winnings will be all the bigger for their docile competition. But for the time being, at least, passive investors have the upper hand. And unless the concentration of America's stockmarket decreases, it seems unlikely that the fortunes of active managers will truly reverse."

Smartt comment:

I noted a study more than two decades ago that posited that if 85% of all stocks in a market were owned by index funds, the market would begin to be inefficient, that new information might cause markets to whipsaw in value radically. This is because there would be so few investors (or their managers) making choices to buy or sell outside of indexing. Indexing continues to be more popular, but isn't approaching the 85% level of market penetration yet. And the 85% figure may not be accurate.

Further, the stock market is sliced and diced in dozens of different ways. There are indices of specific industries, of growth stocks (versus value stocks) and "earth friendly" funds vs straight index funds. Changes in investors among such more narrowly based index funds would serve, I believe, to help sustain the efficiency of the overall market.

Indexed investing has done a whale of a lot for me and for most all of my clients.

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