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Client Newsletter Volume XXX Number 2 November, 2024

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I. Blue-Sky Thinking:

From an article in the October 19, 2024 edition of *The Economist* magazine (full title was: “Donald Trump’s Trillion-Dollar Tax Cuts Are Spiralling Out of Control.”)

“For American policy wonks, the final stretch of the presidential election has given rise to a new parlour game. What is the next tax that Donald Trump will propose to cut? The Republican candidate has trotted out a range of pledges, from no taxes on overtime work to no taxes on retirement benefits. Last week alone he proposed three exemptions, including making interest on car loans tax-deductable. It is easy to figure out what Mr. Trump hopes to gain. Yet the economic implications are dispiriting: not just a bigger fiscal deficit but a much messier tax code.

...Taken together the proposals also represent a shift from Mr. Trump’s approach to taxes during his first term. The Tax Cuts and Jobs Act of 2017—his biggest legislative accomplishment—simplified the tax system and broadened the base of taxpayers in order to clear the way for cuts. What he is proposing now, however, is the creation of a dizzying array of loopholes. Philosophically, it is hard to defend many: why, for instance, should wage workers pay tax on their entire income, whereas workers who receive tips avoid taxes on some of their income? Moreover, practically it will be a mess: individuals will have to spend more time itemizing their tax returns, and the Internal Revenue Service, already overwhelmed, will struggle to monitor all the claimed exemptions.

The saving grace is that many of Mr. Trump’s proposed tax cuts are really empty promises. Fiscal legislation must make it through Congress to become law. Even if Republicans end up controlling both the Senate and the House, moderates in the party would surely push back against Mr. Trump’s zanier proposals...

Erica York of the Tax Foundation says Mr. Trump could still complicate the debate about how to handle the expiration of the tax cuts of 2017 by throwing unhelpful ideas into the mix. “That’s just going to add to the pressures that Congress faces next year,” she says. And there is one type of tax Mr. Trump really does care about: tariffs. Here too, his promises are inflationary. At the start of his campaign he vowed to place levies of 60% on Chinese products; on October 15th he upped his threat to 2,000% tariffs on Chinese cars.”

Smartt comment: neither Trump nor Harris has a fix for the US government’s deficit problem. If you pay any attention to the electioneering (and who can tune it out!), a Wharton School analysis has Harris’ proposals making the debt larger, but not nearly as fast as Trumps’.

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, 2024	Clients	John Smartt
Money Market Funds	1.7%	4.2%
Bond Funds	26.4	11.8
Stock Funds	<u>71.9</u>	<u>84.0</u>
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, 2024	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	20.6%	(47)	15.2%	(43)	12.8%	(32)
Tax-Managed Capital Appreciation Admiral	20.7%	(45)	15.6%	(31)	13.2%	(14)
Tax-Managed Small Capitalization	9.2%	(73)	10.1%	(54)	10.0%	(14)
REIT Index Admiral	13.6%	(58)	4.8%	(53)	7.3%	(44)
Total Int'l Stock Index Admiral	13.6%	(37)	7.7%	(54)	5.4%	(53)
Balanced Index Admiral	14.1%	(22)	9.3%	(22)	8.5%	(14)
Total Bond Market Index Admiral	4.4%	(77)	0.3%	(58)	1.8%	(43)
Int.-Term Invstmt.-Grade Bond Admiral	6.2%	(14)	1.8%	(17)	2.9%	(37)
High-Yield Corporate Bond	6.6%	(78)	3.9%	(60)	4.6%	(23)

For comparison, here are several stock and bond benchmarks:

Periods ended September 30, 2024	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	22.1%	16.0%	13.4%
Russell 2000 (small stocks)	11.2%	9.4%	8.8%
MSCI World Index	18.9%	13.0%	10.1%
Bloomberg US Aggregate Bond Index	4.4%	0.3%	1.8%
ICE BofA US High Yield Master TR (bond index)	8.0%	4.5%	5.0%

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. The Envy of the World (The American Economy):

From an article in *The Economist* magazine dated October 19, 2024 (subtitle: The American Economy has left other rich countries in the dust. Expect that to continue...):

“On present policies and performance, the United States is condemned to slower growth than the other main industrial countries for the foreseeable future.” So declared the Competitiveness Policy Council, a committee advising America’s president and Congress, in 1992, a time when America was gripped by concerns that its economy was losing ground to Japan and Europe. The opposite turned out to be true. Japan entered a long period of stagnation, Europe’s growth fizzled and America entered a mini-boom, fueled by the rise of the internet.

More than three decades later, some are again painting pictures of an American economy heading towards decline. China is now the rising juggernaut in the East. Donald Trump, instead of Bill Clinton, is the candidate lamenting the state of the economy (Mr. Trump said it is ‘failing’, where Mr. Clinton called it an ‘unpleasant economy stuck somewhere between Germany and Sri Lanka’). Ordinary Americans are anxious. Gallop, a polling firm, regularly asks Americans if they are satisfied with how things are going. From 1980 until the early 2000s, a little more than 40%, on average, said they were. Over the past two decades that has dropped to 25%.

Are the prophets of decline onto something this time? Since the rollicking 1990s the American economy has suffered occasional upheavals, including the dot-com bust, the global financial crisis, a spike in unemployment during the covid-19 pandemic, and most recently, a surge in inflation. In purchasing-power-parity (PPP) terms America’s share of the global economy has indeed shrunk, from 21% in 1990 to 16% now.”

Smartt comment: [PPP is a popular macroeconomic analysis metric used to compare economic productivity and standards of living between countries.]

“But one thing has been consistent since the early 1990s: America has grown faster than other big rich countries, and it has rebounded more strongly from bumps along the way. The faulty diagnosis of the competitiveness council back in 1992 should stand as a corrective for those now peddling gloom. American growth since then has been best-in-class and its strengths today give grounds for optimism about the country’s economic power and potential...”

Even more striking is how America has outperformed its peers among the mature economies. In 1990 America accounted for about two-fifths of the overall GDP of the G7 group of advanced countries, today it up to about one-half.

And America's outperformance has accelerated recently. Since 2020, just before the start of the covid-19 pandemic, America's real [excluding the effects of inflation] growth has been 10%, three times the average for the rest of the G7 countries. Among the G20 group, which includes large emerging markets, America is the only one whose output and employment are both above pre-pandemic expectations, according to the International Monetary Fund.

Coupling this growth with the dollar's strength translates into heft for America and wealth for Americans. That can be seen in the huge numbers of Americans travelling and spending record sums overseas. A decade ago (as Chinese travellers [sic] too were demonstrating their wealth) many analysts thought that China would, by now, have overtaken America as the world's largest economy...Instead its GDP has been slipping of late, from about 75% of Americas in 2021 to 65% now.

This...report will explain why American growth has been so strong for so long and why it can be expected to continue. Some of the reasons are down to the good fortune bestowed by geography. As a quasi-continental economy, with a giant consumer market, American companies benefit from scale: a good idea launched in California or product built in Michigan can, in short order, spread to 49 other states. America also has a big well-integrated labour market, allowing people to move to better-paying jobs and drawing workers to more productive sectors. A long, porous southern border may be politically contentious but it has been an economic tailwind, allowing the labour force to steadily grow and helping to fill the hard, dirty jobs that many native-born Americans have no interest in doing. And as important as the size of the country is what lies beneath it. Over the past two decades the improvement in techniques for extracting hydrocarbons from once-unpliant shale rocks have turned America into the world's largest producer of oil and gas."

The American economy has particular strong points which have bred more strength. Possessing the world's deepest financial markets has made it easier for startups to raise equity, a better way to get off the ground than borrowing cash. The plethora of exciting young companies in America has, in turn, boosted the attractiveness of its markets. Similarly, having the world's dominant currency has made global commerce more frictionless for American business. And America has the world's best universities, which remain so in part by attracting the world's best students.

Other policy choices have helped...After a shaky start America delivered a strong response to the global financial crisis of 2007-09, acting decisively to clean up bank balance sheets, and making aggressive use of monetary policy to support growth. The government's response to the covid slowdown was yet more extraordinary, with a suite of fiscal stimulus packages that left other countries in the dust. Indeed, officials overdid it in their pursuit of a recovery, contributing to the global rise in inflation. But it is impossible to explain America's mighty economic engine without acknowledging the government's willingness to step on the accelerator pedal when it has sputtered."

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