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Client Newsletter Volume XXX Number 3 February, 2025

I. How Vanguard Index Funds Work:

From an article of the same name which appeared on theYahoo Finance website:

> "Index Sampling:
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> Vanguard uses index sampling to track a benchmark index without necessarily having to replicate the holdings of the entire index. This allows the company to keep expenses low. It is more expensive to hold every stock or bond in an index. Further, indexes do not have to allow for the inflow and outflow of funds like ETFs and mutual funds. Vanguard uses the index sampling technique to deal with the natural movement of capital for its funds while still replicating the performance of the benchmark index. Vanguard does not divulge it specific sampling technique.
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> …The index sampling technique has the risk of a tracking error. A tracking error is the difference between the net asset value (NAV) of the fund's holdings and the performance of the benchmark index over time. The greater the tracking error, the larger the discrepancy between the fund and the index. An index [fund] built using all stocks in the benchmark will have zero tracking error, but also be more costly to construct and maintain.
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> …How Large are Index Funds?
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> Index funds that track broad stock market indices are now a dominant force on Wall Street. The largest stock funds track indexes. In 2010, index funds represented less than one-fifth of total equity fund market share. By 2020, this grew to more than 40%. In 2019, total assets invested in US stock index funds for the first time surpassed the assets of funds actively managed by human beings.
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> …The Vanguard Total Stock Market Index Fund (VTSAX) ranks first with an astounding $1.5 trillion in assets under management."

Smartt comment: Another principal reason for Vanguard's low cost structure is that it is organized as a true mutual, not a profit making corporation. When Vanguard makes a "profit" it has no separate set of owners to whom to pay a dividend. Instead it lowers mutual fund costs to all who own its mutual funds and exchange-traded funds ("ETFs").

Note that the Total Stock Market Index ETF costs even less per year, 0.03%, which is why we make heavier use of the ETF format.

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, 2024	Clients	John Smartt
Money Market Funds	1.9%	4.0%
Bond Funds	25.4	13.6
Stock Funds	72.7	82.4
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, 2024	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**23.7%**	(43)	**13.8%**	(42)	**12.5%**	(33)
Tax-Managed Capital Appreciation Admiral	**23.8%**	(43)	**14.3%**	(29)	**13.0%**	(12)
Tax-Managed Small Capitalization	**8.6%**	(76)	**8.3%**	(58)	**8.9%**	(22)
REIT Index Admiral	**4.9%**	(66)	**3.0%**	(64)	**5.1%**	(52)
Total Int'l Stock Index Admiral	**5.1%**	(41)	**4.3%**	(59)	**5.1%**	(49)
Balanced Index Admiral	**14.6%**	(19)	**8.3%**	(19)	**8.2%**	(14)
Total Bond Market Index Admiral	**1.2%**	(74)	**-0.3%**	(52)	**1.3%**	(45)
Int.-Term Invstmt.-Grade Bond Admiral	**3.3%**	(31)	**1.1%**	(18)	**2.5%**	(46)
High–Yield Corporate Bond	**6.3%**	(84)	**3.3%**	(67)	**4.5%**	(42)

For comparison, here are several stock and bond benchmarks:

Periods ended December 31, 2024	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**25.0%**	**14.5%**	**13.1%**
Russell 2000 (small stocks)	**11.5%**	**7.4%**	**7.8%**
MSCI World Index	**18.7%**	**11.2%**	**9.9%**
Bloomberg US Aggregate Bond Index	**1.3%**	**-0.3%**	**1.3%**
ICE BofA US High Yield Master TR (bond index)	**8.2%**	**4.0%**	**5.1%**

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 14th 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. CAUTION: Emails from "Schwab":

Earlier this morning a client called to warn us that he has been getting emails, supposedly from Charles Schwab but which are bogus, are "phishing" for your personal information. He noted that subject matter of the emails included references to PayPal and to Bitcoin. Don't be fooled. Please make sure the Schwab email is something you expect and be very reticent about providing personal information.

V. Why Tariffs Will Make America Poorer:

There are two article excerpts below. This first is from *The Economist* magazine, this week's edition, with the same title as above. The second is from a Bloomberg article located earlier this week on the *Apple News* application.

> "More than 90 years ago [FDR] surveyed the wreckage of the Great Depression. He pointed to one of its causes: sky-high tariffs had put America 'on the road to ruin' by inviting retaliation and suffocating investment. It took decades of global effort, led by America, to bring tariffs down and let commerce flourish again. It was a painful lesson, one that President Donald Trump has not learned.
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> To investors' relief, Mr. Trump refrained from slapping tariffs on all imports on his first day back in office. But make no mistake: the man who says 'tariff' is the most beautiful word in the dictionary is eager to ratchet up protection. He sees tariffs as a means to achieve lots of objectives: shrink America's trade deficit, rebuild its manufacturing might and generate a gusher of revenue for the government. On every count he is wrong.
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> …The record of recent tariffs…proves that they do not magically create jobs in American factories. Manufacturing as a share of American employment has fallen since Mr. Trump's first tariffs went into effect. Companies directly protected by tariffs during Mr. Trump's first administration—notable steel and aluminum—did increase their revenues. But that gain came at the expense of thousands of downstream companies that suffered from higher input costs.
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> In Mr. Trump's most feverish moments, he has talked about completely replacing the income tax with tariffs. An "External Revenue Service" would insure that foreigners rather than hardworking Americans, foot the government's bills. It is brilliant marketing, but nonsense. The cost of tariffs is mostly borne not by foreigners but by American consumers, through higher import prices…And tariff revenues cannot come close to replacing the income tax. Even if import levels were to remain constant, a 10% universal

tariff would fund little more than one twentieth of the federal budget. In fact, imports would decline as higher tariffs raised their price.

The most optimistic assumption is that Mr. Trump mainly wants to use tariffs as a negotiating tool. They could be a powerful one: America, as the world's biggest market, has plenty of weight to throw around. But tariffs are just as likely to tie America in knots. Once implemented, they are hard to revoke, and their potency diminishes through repeated use."

From Bloomberg:

"…Trump. As he did eight years ago, won the White House thanks to voters angry about an economy that many feel doesn't work for them, even if aggregate data shows it's in good shape.

The president's promise of a return of factory jobs—fueled by protective tariffs that spur investment—stands at the heart of his inaugural pledge of a new 'golden age' for the US.

'As tariffs on other countries go up, taxes on American workers and businesses will come down and massive numbers of jobs and factories will come home,' Trump told Republican lawmakers in Miami on Monday.

But the last time he employed them, almost the exact opposite happened. Instead, the Federal Reserve confronted a slowing economy led by a manufacturing sector shedding rather than gaining jobs, data and new transcripts of policymakers' discussions at the height of Trump's first trade war show. Central banks are likely contemplating the effects again in their meeting concluding Wednesday, especially with Trump threatening to start imposing tariffs as soon as Saturday…

In 2019, the first full year after Trump began imposing the levies—which were much more carefully targeted versus the broad ones he's threatening now—the US lost 43,000 factory jobs, industrial production contracted, business investment stalled and real median household incomes fell for the first time in five years. By one estimate, the hit to consumer earnings was $8 billion.

What happened in 2019 matters because it was the first time policymakers dealt with the economic impact of a broad swath of higher import taxes since the 1930s. It was a rare real-world experiment in the effects of protectionism.

…Former Chicago Fed President Charles Evans recalls what was almost a recession in manufacturing unfolding. 'You could see it slowing down a part of the economy after taxes had been cut,' he said in an interview last week. 'That was very surprising, I thought.'

…At their meeting last month [Federal Reserve] chair Jerome Powell said some people started to incorporate Trump's proposals into their forecasts—which showed a big jump in projected inflation for 2025 and higher interest rates.

…Trump's first-term tariffs 'resulting in manufacturing, job, and wage growth with no inflation,' White house spokesman Kush Desai said…'In his second administration President Trump will again use tariffs to level the playing field, usher in a new era of growth and prosperity for American…workers."

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