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Client Newsletter Volume XXXI Number 2 November 1, 2025

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I. “Absolutely” a Market Bubble: Wall Street Sounds the Alarm of AI Driven Boom as Investors go All In:

This is part of an article from *Yahoo Finance* dated October 15th of this year.:

“Wall Street is growing louder with warnings that the artificial intelligence trade may be overheating.

After months of record gains in AI-linked stocks and corporate spending, concerns are mounting that the boom is beginning to look like a bubble...

‘You have a lot of assets out there which look like they are entering bubble territory’ [Jamie Dimon, CEO of Bank of America is quoted as saying.] That caution comes as new [investor] sentiment data shows exuberance reaching extremes.

Bank of America’s latest Global Fund Manager Survey...cited an ‘AI equity bubble’ as the top global tail risk for the first time in its history...

Another early warning sign: Correlations across [industry] sectors [of stocks] have fallen to their lowest level since the current bull market began. [The co-founder of DataTrek] said these ‘unusually low’ readings tend to appear when investor confidence ‘runs too high’ and is a pattern that often precedes short-term pullbacks [decreases in stock prices].

And as investors double down on risk, companies are matching that conviction and pouring billions into AI.”

Smartt comment: As this is written, the stock market is priced very highly in relation to earnings produced by the companies themselves. If you know that you are going to need money from your investments soon, it might be a good time to sell some of your stock investments. See also the article quoted in section IV below.

If you have questions about this, please contact me.

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, 2025

Clients

John Smartt

Money Market Funds	1.2	4.0%
Bond Funds	29.0	13.5%
Stock Funds	<u>69.8</u>	<u>82.5%</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.

If you have questions, don't hesitate to contact me.

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, 2025	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	14.3%	(41)	15.6%	(44)	14.7%	(34)
Tax-Managed Capital Appreciation Admiral	14.5%	(35)	15.9%	(35)	15.1%	(17)
Tax-Managed Small Capitalization	4.2%	(70)	12.8%	(45)	9.9%	(36)
Total Int'l Stock Index Admiral	26.5%	(38)	10.4%	(54)	8.3%	(38)
Balanced Index Admiral	11.5%	(32)	9.2%	(41)	9.7%	(20)
Total Bond Market Index Admiral	6.1%	(52)	-0.5%	(58)	1.8%	(49)
Interim-Term Investment-Grade Bond	8.3%	(1)	1.1%	(24)	3.1%	(47)
High-Yield Corporate Bond	7.5%	(18)	4.7%	(68)	5.4%	(45)

For comparison, here are several stock and bond benchmarks:

Periods ended September 30, 2025	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	14.8%	16.5%	15.3%
Russell 2000 (small stocks)	10.4%	11.6%	9.8%
MSCI World Index	17.4%	14.4%	12.4%
Bloomberg US Aggregate Bond Index	6.1%	-0.4%	1.8%
ICE BofA US High Yield TR (bond index)	7.1%	5.5%	6.1%

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.

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 reasonably

high in the rankings over the last ten year period. When the more risky portions of the “junk bond” investment sector are under stress, the Vanguard fund shines. Over the last ten years the Vanguard fund has captured about 3/4 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 and comprises some of my personal bond holdings.

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

IV. The Line-Goes-Up Crowd:

This article appeared in *The Economist*, October 11th edition; subtitle: Soaring Stocks and Rich Investors are Fuelling America’s Economy. That is a Source of Vulnerability:

The stock market is not the economy, as the old investing cliché goes. That is obvious enough to anyone paying attention in America this year. President Donald Trump’s tariff fervor has dented growth, even though not by as much as expected after ‘Liberation Day’, and yet the stock market has soared: the S&P 500 index of large American companies is up nearly 15% so far this year, comfortably ahead of the historical average.

But does the stock market power the economy? At most points in time, it would be a ridiculous question. In recent months, though, the rise in American share prices has coincided with, and been fed by, a rush of popular enthusiasm for investing. And as people see the line go up, they become more likely to spend. Now the answer to the question has important implications for the path of America’s stock market boom and its economy.

George Soros, a hedge-fund great, would call the relationship between the stock market and the economy ‘reflexivity’, the idea being that asset prices can affect underlying economic fundamentals, which in turn juice asset prices, and so on and so forth...An earnest economist would label it the ‘wealth effect’, noting that rising asset prices can nudge people to spend more, amplifying economic cycles.

Economists have most clearly observed such an effect in housing markets, which is traditionally where the bulk of household savings have sat. When home prices soar, people feel more comfortable making large purchases, perhaps by drawing down savings or borrowing more. Indeed studies find that a \$1 boost in housing wealth nudges up spending by between two and six cents.

But look at the stock market soar. AI-related exuberance has propelled the valuations of technology companies. Even duller businesses have benefitted, companies in the ‘S&P 493’, excluding the ‘magnificent seven’ tech giants, are also trading at multi-decade-high valuations. How strong could stock market wealth effects be? Although historical studies have found a smaller impact than for housing, the boom in retail investing...may have caused this to change. Portfolios squirreled away in retirement accounts or in complex and hard-to-sell mutual funds might set the animal spirits alight rather less than a rising green line on a trading app.

Rich people tend to have a higher share of their wealth in stocks, relative to housing, than poor people, meaning they are probably benefitting disproportionately from surging share prices. Since they are less likely to amp up their spending when their wealth increases, this will somewhat mute the wealth effect. Yet stock holdings have risen sharply in recent years among the less well-off, too. In 1989 only 3% of the poorest fifth of households held stocks... By 2022, 17% did. The share of

average-earners with stock holdings rose from 29% to 60% over the same period. Given recent exuberance, it is likely that both figures are higher today.

A wealth boom concentrated among the better off, might also help explain some unusual features in the modern American economy. These include the fact that the rich seem to have been able to increase their spending much faster than everyone else over the past few years and that so far this year growth in employment has been much slower than growth in consumer spending. Perhaps a few big spenders are keeping everything afloat [!]....

American doom-mongers have had a tough time over the past decade or so. Yet they will be well aware that that wealth effects can go the other way too: falling stock prices could hurt consumer spending, and do so at a vulnerable time. Household wealth is nearly six times GDP [gross domestic product], a record high, meaning any fall would be painful. Troublingly, McKinsey, a consultancy, reckons that nearly 60% of the growth in American wealth since 2000 has been ‘on paper’ (ie, beyond what economic growth would justify).

Down but Not Out:

Might a wealthier society also take a harder fall? Bears would point to the bursting of the dotcom bubble in 2000, when a brutal stock market slump pushed America into recession. Today’s stock market wealth is 50% higher as a share of GDP than it was then. But it is also worth looking at another tech bubble, one that popped more recently. Over the course of 2022, the value of Americans’ stockholdings relative to GDP fell by a quarter, as the share prices of pandemic tech darlings cratered while the Fed furiously raised interest rates in an attempt to contain inflation. Although consumption did slow towards the end of that year, it remained positive and rebounded soon enough. The stock market might be more of the economy. It still is not all of it.”

Smartt comment: I may be a chicken but this very high stock market feels very vulnerable to negative surprises to me. There are so many economic and political uncertainties currently that if I won the lottery I would not put the bonanza into the stock market, unless I could “troll it in” a little at a time over a significant number of months. I am thrilled by the high values of my stocks but glad that I have the money that I plan to spend next year held in money market balances.

I’d be pleased to discuss this further.

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