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- I. Is Your Index Fund Really Diversified?
- II. What are YOUR and MY Asset Allocations?
- III. Vanguard Rates of Return (through Latest Quarter End)
- IV. Have Trump's Tariffs Worked?

**I. Is Your Index Fund Really Diversified?:**

This is part of an article from Morningstar by Alan Roth, CPA, dated April 16<sup>th</sup> of this year; subtitled: "Market concentration is making even the total market index funds top-heavy."

"A total stock index fund owns thousands of individual stocks...the Vanguard Total Market Index fund ETF VTI owns 3,498 companies...Most nonindex funds own between a few dozen and a few hundred companies.

...As of March 31, 2026, the top 10 positions account for about 34% of these total stock index funds. That means that 0.3% of the issuers represent more than one-third of the total value because total market index funds are all capitalization weighted. That is, the companies are weighted according to the total market value of their outstanding shares.

...One stock, Nvidia NVDA represents about 6.2% of [VTI] as of Feb. 28. Technology and communication-services sectors represent about 41% of this fund. I'm including communication services because that sector comprises stocks like Alphabet, GOOGL and Meta Platforms META, which are heavy in technology and include AI.

**Is Equal Weighting More Diversified?**

Funds don't have to be weighted by market capitalization, each company could be weighted equally. This probably wouldn't work for a total stock index fund because [VTI] would have to buy more shares of the smallest companies than are actually outstanding. But equal-weighted S&P 500 funds exist such as the Invesco S&P 500 Equal Weight RSP. RSP's largest single position relative to its portfolio is 0.28%.

Though I'm certainly not arguing that an S&P 500 index fund is more diversified than a total stock index fund, one could buy an equal-weighted S&P 500 fund and a capital-weighted extended market fund, which owns virtually all of the US stocks not in the S&P 500. Is that more diversified? At first, it appears...more diversified.

But weighting the least valuable companies the same as the most valuable results in owning many times the market value of the smallest companies in the S&P 500 and bets against those that are the largest. Making large bets against the market certainly doesn't strike me as wise...

[Here is] Nobel Laureate William Sharpe's definition [of diversification]: Sharpe said:...'A **sensible proxy for this overall market is a portfolio of all the traded bonds and stocks in the world, held in proportion to their outstanding shares or bond issues. If you own all these securities, you have diversified as much as you can.**'

## **My Conclusion**

There are certainly arguments that the current market concentration in a handful of companies makes a total stock market index fund less diversified than in the past. I also admit that I'm uncomfortable with the current market concentration in mega-cap stocks. But if the purpose of diversification is to reduce risk, I know of no other more diversified US stock fund than a total stock index fund.

Of course, a truly diversified portfolio needs to include international stocks as well as fixed income. Cap-weighted index funds also work here.

I certainly admit that I'm not smarter than the market. One can either buy a cap-weighted total stock index fund and harness all of the investor information that went into pricing each stock and earn the market return, or one can bet that markets are inefficient and take the risk that they can outsmart the market. I'm sticking with cap-weighted total stock index funds."

Smartt comment: VTI is by far the largest holding of my client base, and almost all accounts have investments in both international stocks and US bonds.

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 March 31, 2026	Clients	John Smartt
<b>Money Market Funds</b>	1.5%	1.2%
<b>Bond Funds</b>	31.3	13.0
<b>Stock Funds</b>	<u>67.2</u>	<u>85.8</u>
<b>Totals</b>	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 March 31, 2026	Yr.-to-date	5 Years	10 Years
<b>Total Stock Market Index Admiral</b>	<b>-4.0%</b> (43)	<b>10.8%</b> (49)	<b>13.7%</b> (32)
<b>Tax-Managed Capital Appreciation Admiral</b>	<b>-4.1%</b> (45)	<b>11.3%</b> (36)	<b>14.1%</b> (18)
<b>Tax-Managed Small Capitalization</b>	<b>3.7%</b> (19)	<b>4.5%</b> (59)	<b>9.9%</b> (45)
<b>Total Int'l Stock Index Admiral</b>	<b>1.8%</b> (25)	<b>7.5%</b> (53)	<b>8.7%</b> (41)
<b>Balanced Index Admiral</b>	<b>-2.4%</b> (69)	<b>6.7%</b> (34)	<b>9.0%</b> (23)
<b>Total Bond Market Index Admiral</b>	<b>0.1%</b> (25)	<b>0.3%</b> (41)	<b>1.7%</b> (54)
<b>Interim-Term Investment-Grade Bond</b>	<b>-0.6%</b> (52)	<b>1.6%</b> (12)	<b>2.8%</b> (51)
<b>High-Yield Corporate Bond</b>	<b>-0.6%</b> (65)	<b>4.0%</b> (43)	<b>5.3%</b> (51)

For comparison, here are several stock and bond benchmarks:

Periods ended March 31, 2026	Yr.-to-date	5 Years	10 Years
<b>S &amp; P 500 (large stocks)</b>	<b>-4.3%</b>	<b>12.1%</b>	<b>14.2%</b>
<b>Russell 2000 (small stocks)</b>	<b>0.9%</b>	<b>3.8%</b>	<b>9.9%</b>
<b>MSCI World Index</b>	<b>-3.6%</b>	<b>10.3%</b>	<b>11.8%</b>
<b>Bloomberg US Aggregate Bond Index</b>	<b>0.0%</b>	<b>0.3%</b>	<b>1.7%</b>
<b>ICE BofA US High Yield TR (bond index)</b>	<b>-0.5%</b>	<b>4.2%</b>	<b>6.0%</b>

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. 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 over 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. Have Trump's Tariffs Worked?:

This article by Scott Horsley appeared in *WHY* online (a site affiliated with the local National Public Radio affiliate), on April 2<sup>nd</sup>; subtitle: This is where things stand a year after “Liberation Day”:

“A year ago, President Trump ordered double-digit tariffs on virtually everything the US imports.

In a ceremony at the White House, he promised that jobs and factories would come ‘roaring back’ to the country as a result, that consumer prices would fall and that April 2 would go down in history as ‘the day we began to make America wealthy again.’

### **The government collected a lot of money but has to give half of it back**

Tariffs are generating tens of billions of dollars in revenue for the federal government. In the first five months of the fiscal year, the government raised \$151 billion from tariffs – nearly four times as much as during the same period the previous year...

Most of that tax bill is being paid by U.S. importers, and in some cases they’re passing the cost on to consumers. But six weeks ago the Supreme Court ruled that Trump had overstepped his authority...and now about half of the total revenue will have to be refunded.

Customs officials are working on a plan to refund about \$166 billion in tariffs that were wrongly collected, and they hope to have the details worked out by mid-April.

### **A boom in domestic manufacturing hasn’t happened**

...’We will supercharge our domestic industrial base,’ Trump said in announcing the tariffs last year. But manufacturing has been in a slump for most of the last year. U.S. factories employed 89,000 fewer people in February than they did in April [2025], when the worldwide tariffs took effect.

### **Inflation remains elevated**

Inflation in February was 2.4%, slightly higher than it was last April.

‘These elevated readings largely reflect inflation in the goods sector, which has been boosted by the effects of tariffs,’ Federal Reserve Chair Jerome Powell told reporters last month....

### **The trade deficit hasn’t changed much**

...over the course of 2025, Americans actually imported slightly more goods than they did the previous year, before Trump’s tariffs took effect.

Imports of goods last year totaled \$3.4 trillion, up 4% from 2024 – but exports totaled \$2.2 trillion, a 6% increase. That helped lead to an increase in the total goods trade deficit, which rose about 2% to \$1.24 trillion.

### **Import taxes are high, but not as high as last year**

...the Trump administration later reduced many of those import taxes, and the Supreme Court then removed some tariffs altogether. As of February, the Tax Foundation estimates that the average tariff on imports is about 10%. That’s about half of what it was at its peak, but still about four times as high as the average import tax at the beginning of last year.”

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