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I. Vanguard's First Index Fund Turns 50

From the August 15, 2026 edition of *The Economist;* full title of the article was: "Bogle's the Mind; Index Funds Have Transformed Markets, Just Don't Call Them Passive:"

> "The launch of the Vanguard First Index Investment Trust, 50 years ago…could have gone better. Jack Bogle, Vanguard's founder, called it 'an abject failure.' He hoped to raise somewhere between $50m and $150m [million], but only got a little over $11m ($65m [in today's value of the dollar]. As the first fund aiming to do no more than track a stock-market index—America's S&P 500—that was available to individual investors, it nevertheless raised hackles. 'One conclusion, usually raised with considerable feeling, is that index funds are a "cop out" and a fad that will soon disappear,' sniffed an article in the *Financial Analysis Journal*, published later the same year…
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> Predictably, the professional stock pickers whose lunch has been eaten are as furious as ever. 'Worse that Marxism,' thundered Bernstein, a broker, in 2016…
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> Bogle's creation ranks among the most important financial innovations of the 20th century, and deserves its place in most investors' portfolios…
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> Index funds are not passive, either. Rodney Comegys, Vanguard's head of equities, explains that managers have more digression than many investors realize. At its launch, for instance, the First Index Fund was too small to buy every share in the S&P 500. So it 'sampled' 300 or so of them, a practice others still use today. Managers can also trade to minimize taxable capital gains, or to avoid getting screwed when everyone realizes they must rebalance (when a firm such as SpaceX joins the index, say). Some juice returns by lending stocks to short-sellers for a fee.
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> Most important, and worrying, index funds seem increasingly to influence asset prices. This is not just because they are so big. Prices are set by trades and slow-trading trackers [British for index funds], even enormous ones, account for a tiny fraction of these. But a series of studies have suggested they nevertheless cause distortions. A particularly widely circulated one outlines the 'inelastic markets hypothesis.' This finds evidence that the presence of fixed-allocation funds… ensures $1 flowing into the stock market pushes up overall market value by $3-8. Others have argued that flows into index funds disproportionately raise the share price of the biggest firms.
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> Perhaps, then, the popularity of index funds is storing up trouble, helping to inflate a stock-market bubble while also entrenching the dominance of a few corporate giants. Ironically, even that would

not be an argument to divest. When share prices next crash, just as when they soar, trackers will clock their average—doing better than the average stock-picker, who will get the same return minus heftier fees. In 50 years' time, it is a good bet that index funds will be mightier yet."

Smartt comment: While agreeing that it a potential worry, I note that almost all client investments are not just in the S&P 500 but in the Total Stock Market Index Fund which owns 3,513 different stocks (per Morningstar). It has no large firm bias. Further, my average client age is now 67 years old. The client base is a nice mix of those retired and those still working (and accumulating investments for their retirement). So we, as a group, do about as much selling as we do purchasing additional shares.

It has also been asserted that indexing makes corporate managements less beholden to shareholders. I note that a couple of years ago Vanguard began allowing its shareholders to tell Vanguard how they wished their shares to be voted on various corporate shareholder proposals. Very few Vanguard shareholders respond to this offer, but then again most all owners of individual stocks vote with management on proposal after proposal, year after year.

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, 2026	Clients	John Smartt
Money Market Funds	1.0%	0.1%
Bond Funds	27.9	11.8
Stock Funds	71.1	88.1
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, 2026	Yr.-to-date		5 Years		10 Years	
Total Stock Market Index Admiral	**12.6%**	(36)	**12.5%**	(48)	**14.7%**	(36)
Tax-Managed Capital Appreciation Admiral	**12.3%**	(44)	**13.0%**	(38)	**15.1%**	(22)
Tax-Managed Small Capitalization	**14.4%**	(31)	**6.3%**	(63)	**9.8%**	(46)

Total Int'l Stock Index Admiral	**13.4%**	(29)	**9.3%**	(40)	**9.2%**	(40)
Balanced Index Admiral	**6.4%**	(39)	**7.4%**	(31)	**9.4%**	(22)
Total Bond Market Index Admiral	**-2.7%**	(22)	**-0.7%**	(39)	**1.1%**	(52)
Interim-Term Investment-Grade Bond	**-3.4%**	(68)	**0.4%**	(18)	**2.2%**	(27)
High–Yield Corporate Bond	**-0.4%**	(82)	**3.4%**	(52)	**4.5%**	(48)

For comparison, here are several stock and bond benchmarks:

Periods ended September 30, 2026	Yr.-to-date	5 Years	10 Years
S & P 500 (large stocks)	**12.7%**	**13.8%**	**15.3%**
Russell 2000 (small stocks)	**13.7%**	**6.3%**	**9.8%**
MSCI World Index	**11.8%**	**11.9%**	**12.8%**
Bloomberg US Aggregate Bond Index	**-2.9%**	**-0.6%**	**1.1%**
ICE BofA US High Yield TR (bond index)	**0.0%**	**3.6%**	**4.9%**

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 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. The Cost of Government Borrowing is Rising:

From the October 10, 2026 edition of *The Economist;* full title of the article was: "Who would credit it? The cost of government borrowing is rising. That threatens some countries more than others."

> "**Time of Debt**:-Yields [interest rates paid by bonds] are high almost everywhere, but often for different reasons, bringing different degrees of danger. High energy prices are pushing up inflation globally, forcing central banks to keep interest rates higher. In America strong growth and the boom in investment in AI are creating enormous demand for capital. And in some places, fiscal deterioration and populist politics are making investors warier of government debt. Politicians are flirting with disaster. The countries with weak growth and high debt are most at risk.
>
> America's economy has repeatedly proved stronger than investors had expected. When businesses, consumers and the state want to buy more than an economy can easily provide, central banks have to keep rates higher to curb their enthusiasm. But even with borrowing costs at the highest in decades, after adjusting for inflation, the economy is still roaring…
>
> The construction spree is spreading beyond America. Data centers accounted for more than one-fifth of greenfield investments announced worldwide last year. PWC, a consultancy, expects some $5

trillion to be spent on data centers by the end of 2030. All that spending requires an enormous amount of borrowing.

As AI investment absorbs more of the world's savings, borrowing costs rise. [Two researchers] estimate that the AI boom alone could lift real [after inflation] interest rates by about half a percentage point in America. And AI is not the only industry clamoring for capital. American electric utilities plan some $1.4 trillion of investment over the next five years, for instance.

In America, then, there is no shortage of investment opportunities. The bond market reflects that shift. Yields on inflation-protected treasury bonds have climbed about a percentage point over the past six months, even as long-term expectations of inflation barely budged. Investors are betting that borrowing costs will remain high even after inflation cools…

Before the war markets expected three cuts [in interest rates] from the Fed by March 2027, taking its target range to 2.75-3%. They now expect rates to reach 4.25-4.5% by then—a swing of 1.5 percentage points in barely seven months…

Short-term bond yields, which closely track expectations for central-bank rates, have moved sharply higher as a result. Across the rich world, two-year yields are up by a percentage point on average from the start of the year. Longer-term yields have followed, though less swiftly.

The most troubling force pushing up yields is political and fiscal risk. America is getting off lightly despite its budget deficit of around 6% of GDP [gross domestic product] and President Trump's repeated attacks on the Fed. The central bank underscored its independence in September when…[it] raised rates in the face of the president's objections. Estimates of the term premium—the additional return investors demand to hold long-dated bonds—have barely moved this year.

Debt-defying:-A country can live with high debt if its economy is growing quickly, because the debt will then shrink relative to national income (and potential tax revenue). But when interest rates are higher than economic growth, debt will rise relative to GDP unless governments respond with higher taxes or lower spending.

America is better placed than many other rich countries because growth remains strong. Heavy investment in AI could provide a further boost if it lifts productivity…

How much damage higher yields cause will depend on how long they last. Some of the recent rise could unwind if inflationary pressures subside. But a return to the cheap-money world of 2010 looks unlikely. If yields stay elevated, higher taxes or spending cuts will eventually be unavoidable. Cheap money bought government time. Higher yields are now hastening a reckoning."

Smartt comment: James Carville, a political strategist here in the US, stated years ago that if he died and was reincarnated, he wanted to come back as the bond market because it has so much more power. Our federal deficit makes us more susceptible to the qualms of bond market investors.

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