

# *Comprehensive Investment Management, LLC*

## *Fee Only Personal Financial Planning*

### **Fall 2020**

## **A Review of the Financial Markets at September 30, 2020**

**S**tocks finished with their second straight quarter of big gains. But don't read too much into that. Not complaining about it, but the second quarter simply gave us back what it took away in the first quarter. For perspective consider that for the first nine months of 2020 Vanguard's 500 Index return was 5.7%. That was driven primarily by large tech companies like Amazon (70.4%) and Apple (58.6%). The leading sector of the economy was consumer discretionary, which is puzzling since so many people are out of work, the pandemic is still spreading and so far there has been no second round of relief payments. It's hard to imagine much of the spending on niceties is being done by the 7 million unemployed who had jobs in February.

There is no doubt extraordinary relief measures by Congress along with extensive monetary easing by the Federal Reserve has had a big impact on stock market. Reserve Chairman Jerome Powell is calling for more fiscal relief, predicting a very slow recovery otherwise. He argues it's better to do too much than too little. The majority of economists agree, but Congress and the White House so far have been unable to follow up on the extensive measures taken in April.

Over the last twelve months the Vanguard's S&P 500 fund has returned 15%. The only large cap fund that managed to match that was Primecap, which has higher allocation in tech than the other funds including the S&P. Excluding Primecap the return of the large caps was just 7.7%. A typical CIM portfolio has most of its US large cap exposure via its investment in the Wellington Fund, which is a balanced fund holding 65% stocks and 35% bonds. A less than precise estimate of the performance of Wellington's stock portion is 8.5%. The biggest difference between our large cap funds and the S&P is that the funds have 15% in foreign holdings. The S&P is 100% US.

The one year return for our mid and small cap funds leaders exceeded the return of the S&P. The average of Brown Capital, Capital Opportunity and Prime Cap Odyssey Aggressive Growth was

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<b>Average Returns of Mutual Funds Recommended by CIM</b>							
	Quarter	9 Month YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Large Cap Stocks	8.3	-.8	9.1	9.3	12.9	13.4	10.1
Mid Cap Stocks	7.6	3.8	15.1	9.8	13.3	14.4	10.9
Small Cap Stocks	6.4	8.8	16.8	13.3	14.9	14.8	11.2
Healthcare Stocks	5.5	11.0	30.9	12.7	11.3	17.5	13.2
Foreign Stocks	12.7	14.2	28.6	8.8	13.4	10.7	9.1
Short Term Bonds	.6	4.2	4.7	3.4	2.7	2.2	3.2
Intermediate Bonds	2.1	6.8	7.5	5.4	4.9	4.4	5.0

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### The Financial Markets (continued from page 1)

21.7%. Vanguard's Healthcare was even higher at 26% and T. Row Price Health Science higher still at 35.9%. As you see in the accompanying chart all the US fund categories are well into double digit returns at 5, 10 and 15 years. The foreign funds are close to all double digits, missing only at 15 years with 9.1%.

It's been a long time since Inflation Protected Securities had the best 12 month return among bonds. At 9.6% it leads the pack that otherwise averaged 7.0%. The bond return reflects the lowering of interest rates by the Federal Reserve. That's not likely to repeat because rates can't go much lower. Bond yields are indicative of future returns and they are averaging 1.5%. Not good.

Among others Goldman Sachs says stocks are not overpriced. The argument is the market is looking past the Covid Crisis to times when the economy will be back to normal. They concede that may not be for a couple of years. The market doesn't usually price stocks two years ahead, normally it's more like six months. But the outlook for six months is so bleak, what alternative does it have? If the markets always looked far ahead we would all be better off with much less volatility.

Speaking of volatility, we have an upcoming election. How much volatility we will experience will depend on how contentious the election results are and how long it takes to declare clear winners, both for the presidential ticket and congress. Most market watchers think a Joe Biden win is already priced in, which means a concession to higher taxes. Biden says any increase will only apply to taxpayers with income above \$400,000. But there would still be ripple effects and an increase in the corporate tax rate is expected as well. A perceived positive sign for the economy is that Democrats are more likely to fund economy-boosting infrastructure projects. Financial markets are fickle and history indicates it is very difficult to determine, even after the fact, the economic impact of a given election. If Trump wins the markets will adjust accordingly.

It's long been understood that the biggest problem for the stock market is uncertainty. The election will be another test. So far the market has absorbed the devastating hit to the economy by the pandemic, so it should be able handle the election results as well. In both cases as Lincoln reminded us: "And this, too, shall pass away". Let me add: "Not soon enough".

Return of Vanguard Balanced Funds With Opposing Bond/Stock Allocations - as of September 30, 2020							
	Quarter	9 Months YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Wellesley 65% bonds	2.3	2.7	5.2	6.3	7.3	7.3	6.9
Wellington 65% stocks	5.9	2.2	7.6	8.1	9.9	9.6	7.9
Average	4.1	2.5	6.4	7.2	8.6	8.5	7.4

## **What Percentage Should You Have In Foreign Stocks?**

It depends on who you ask. John Bogle, the late founding father of the Vanguard Group didn't think you needed any. He said so much of the business activities of the big US firms are in foreign countries, your portfolio was already in foreign investments. Vanguard itself, on the other hand, recommends 40% of your stock investments be in foreign funds. In addition it recommends 30% of your bond investments be foreign. That recommendation approximates the 40% of global economic activity that occurs outside the US. Vanguard likes diversification to be aligned with the total markets, which is what you get when you invest in most index funds. 40% of stocks in foreign seems awfully high and CIM has never gone higher than 20% and several years ago reduced that to 16%. The recent addition of Vanguard's ESG fund (45% foreign) to portfolios has bumped the percentage a little bit. Foreign bonds? I don't think so. There is not enough return in bonds to justify the additional risk. The current yield on Vanguard's Total International Bond Index Fund is 3/10 of one percent. Who wants to sign up for such a minimal return at any level of risk?

Over the last ten years Vanguard's Total International Stock Index fund has returned 4.1% annually. Over the same period Vanguard's Total US Stock Index fund has returned 13.4%. \$100,000 at 4.1% ten years later amounts to \$150,000. At 13.4% it's \$379,000. Quite a difference. The average ten year return on the foreign funds CIM recommends is 10.8%. The Emerging Market Fund has not been around ten years but its 5 year return is 9%.

## **The Role of Bonds In Your Portfolio**

Financial author and former long time Wall Street Journal columnist Jonathan Clements has declared "Game Over" in regards to bonds. In his recent newsletter he gives the scenario of an investment in Vanguard's Total Bond Market ETF. The current yield is 1.2%. The expected rate of inflation is 1.7%. You have to pay income taxes on the 1.2%. His conclusion is that for a period of years to come, bonds won't be playing their traditional role of providing a decent stream of income. And without that income he feels the bond role as an offset to the risk of our stock allocation is too expensive. As he nears retirement he has decided to put five years of expected withdrawals into a mix of short term bonds and savings accounts. The rest will go into stocks.

CIM recommends two years in expected withdrawals and keeping the usual allocation of bonds and suggests dealing with the dismal bond outlook by extending risk (and expected higher return) through an increased investment in Vanguard's High Yield Bond fund. Unlike other bonds the price of high yields moves in the same direction as stocks, but Vanguard's fund is lower risk than its counterparts and certainly a good bit lower risk than stocks. In response to my question, Jonathan said he thinks high yield bonds are "just a unhappy compromise between stocks and bonds" and come with higher cost. Well, diversification is itself a compromise, and the difference in costs between Vanguard's cheapest bond fund and its High Yield is \$80 per year on \$100,000.

## **Keep Your Contact Information Current**

As a security measure Vanguard uses your phone number as part of its security system. An example is you have to respond to a call or message if you log in with a device Vanguard does not recognize as one you have used before. If your number is not current, for example, you dropped your land line, Vanguard won't be able to reach you. If you call to change the number you may be told you have to submit the change via a notarized letter. That's how serious Vanguard is about using phone numbers as a security measure. It is easy to update your information on line, but not after you are incommunicado. Contact your CIM rep if you need help with the change.

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## Comprehensive Investment Management, LLC

Investment Management &  
Personal Financial Planning Services

*It's morning in the personal financial services industry*

The CIM investment strategy:  
Control risk yet outperform the market  
by using well managed, no  
commission, low cost mutual funds.  
Maintain appropriate asset allocation and  
diversification. Minimize taxes.

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*Recent market activity can be newsworthy, and is  
certainly that at the present time. However  
investment returns over longer periods, while not  
predictive, are significantly more meaningful.*

## We Get Letters

**Q:** I am one of those who will eventually be forced onto Vanguard's new retail platform. I'm not happy about it, but will live with it because the low cost value is still there. I understand it's clearly not John Bogle's Vanguard anymore. Are there any other overall concerns I should have?

**A:** Not at this point. Company culture may become more of a concern. Morningstar, the independent financial rating firm acknowledges problems, but still gives the firm a high rating. It does say *"the firm must stay on its guard to prioritize investor interests over merely expanding its kingdom."*

Internet chat rooms are full of negatives about customer service. Much of it is attributed to the enormous growth of Vanguard. Thirty years ago when I first invested with Vanguard it oversaw assets of less than two billion dollars. Today the figure is around seven trillion. Much of the growth is a result of the expanded popularity of index funds and ETF's. A good bit of that is due to employer plans. The employer gets no benefit from offering an array of managed fund choices to employees who can then blame it for their bad decisions.

Vanguard has always been low cost. Can that be taken to an extreme? Yes. When you call Vanguard you now have to talk your way past an interactive message and say why you are calling. I have come to expect that in retail but I don't find it appropriate at a financial institution.

Services have been contracted out, including 529 accounts, annuities, and even the mail, which now goes to Texas. Recently 1,300 employees were transferred to a company based in India. Vanguard dropped Saturday services the same time it introduced its new platform. Described as an upgrade, the platform is the opposite. A user friendly system went out with the bath water. The misleading way Vanguard has handled the change has been more than disappointing. Any improvement the adjustments it recently agreed to in regard to Agent Authorizations remain to be seen.