Insights and Observations: Third Quarter 2024

There are about three times as many domestic stocks funds as there are American companies. While domestic stocks account for 70% of the world's stock market value, they make up fewer than 10% of the listed companies in the world.

> **Americans have rarely been as excited about stocks as they are today and have never had as many ways to slice and dice the market cheaply, but they are ordering from a shrinking menu. The explanation is that a long period of low interest rates and the rise of index funds made smaller U.S. companies attractive acquisition opportunities.**
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> **Spencer Jakab – WSJ 7/8/24**

The Investment Company Institute, the fund industry's trade association, reports that IRAs have $14.3 trillion in assets, while $11.1 trillion sits in 401k-type plans.

According to Vanguard Group, nearly one-third of 401k monies rolled into Vanguard IRAs in 2015 were still sitting in cash seven years later. Vanguard estimates that Americans lost out on more than $172 billion a year in retirement wealth that could have been generated if that cash was properly invested in stocks and bonds.

The Vanguard study also found that more than half of the investors who contributed to an IRA in 2022 stayed in cash for at least 12 months. In a more recent survey of over 500 Vanguard IRA clients who completed a rollover in 2023, two-thirds did not know how their money was invested.

Workers miss out on billions in investment gains by pulling retirement savings out of the stock market after switching jobs – often without meaning to. The mistake is common and costly, especially for younger workers accustomed to their savings being automatically invested in company plans. They risk missing out on years of potential gains, which compound over decades and build retirement wealth.

Anne Tergesen – WSJ 7/22/24

According to the most recent estimates from the United Nations, the earth's population should top out at 10.29 billion in 2084:

- The earth's population in July 2023 was 8.09 billion.
- Across much of Europe and China, population levels have already peaked and are declining.

- India, with 1.44 billion people, has now surpassed China's population of 1.42 billion. India's population should peak around 2061.
- The U.S. population, estimated at 343.5 million in 2023, is expected to continue to grow slowly through this century.

> **Sub-Saharan Africa is projected to have almost a third of the world's population by the end of the century, driven as much by slowing population growth in other regions as accelerating African growth.**
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> **The world's fertility rate, at 2.25 last year, is thought by some demographers to be a milestone – the first time the entire world is now at replacement fertility.**
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> **Danny Dougherty – WSJ 7/11/24**

In 2020, former Treasury Secretary Steven Mnuchin required the IRS to audit 8% of taxpayers each year who earned more than $10 million. To achieve that quota, the agency started examining returns with fewer irregularities. A recent report, by the Treasury Inspector General for Tax Administration (Tigta), concludes that the targeting of these taxpayers was decidedly ineffective.

Prior to the Treasury Directive, the average dollar assessed per return above $10 million was nearly 6 times more productive … in other words, 6 times as much in unpaid taxes was recovered. After the policy change, the money assessed per hour from this high-income group dropped 93%.

The theory seems to be that uber-wealthy tax cheats are hiding around every corner, even if the IRS can't seem to find them ... High earners with bigger tax bills make easier political targets, but it's a wasteful mistake to audit them merely because they exist.

The Editorial Board – WSJ 7/4/24

A new Morningstar report estimates that investors missed out on about 15% of their fund's returns over the decade ended December 2023. The gap was attributed to mistimed buying and selling.

- The average dollar invested in domestic mutual funds and exchange-traded funds earned 6.3% a year over that period, underperforming the average fund by 1.1 percentage points per year.
- Allocation funds produced the narrowest gap, suggesting that investors had more success using simple funds that automate routine tasks like rebalancing.
- Sector funds, which can be considerably more volatile, had the widest gap.
- The overall gap reached a negative 2% in 2020.

Investors particularly struggled to navigate 2020's turbulence, adding monies in late 2019 and early 2020, then withdrawing nearly half a trillion dollars as markets fell, only to miss a portion of the subsequent rally.

Morningstar – ThinkAdvisor 8/20/24

Can you endure a lifetime of barbecues and cocktail parties where other people brag about their winning trades and all you can do is mutter, "Umm, I own index funds, and I haven't made a trade in a decade?

Chasing gains is the best way to end up capturing losses.

Jason Zweig – WSJ 8/23/24

Economists and policymakers basically agree that our massive U.S. federal debt will restrict future economic growth, put upward pressure on interest rates, and constrain our ability to act in case of war or another pandemic. Consider some of the latest observations:

The U.S. isn't fighting a war, a crisis or a recession. Yet the federal government is borrowing as if it were … Instead, the candidates are tripping over each other to make expensive promises to voters.

Richard Rubin – WSJ 9/16/24

Despite intensifying polarization, the Republican and Democratic parties are alike in one important respect: Both now behave as though budget deficits don't matter. We can recover from episodic folly, but if we persist in it, we're asking for trouble.

William A. Galston – WSJ 9/17/24

Maybe we should forget about budget deficit measures that compare government spending to overall GDP. Just know that our government currently takes in about $5 trillion annually … but spends around $7 trillion. Simply put, even with total U.S. federal debt already in excess of $35 trillion, our government continues to spend 40% more than it takes in each year. By any measure, this is not sustainable.

Consider the following statistics offered by Phil Gramm and Jodey Arrington in their WSJ article "Welfare Is What's Eating the Budget":

- Since the War on Poverty in the 1960s, welfare payments received by the average work-age household in the bottom quintile of income recipients had risen from $7,352 in inflation-adjusted 2022 dollars to $64,700 in 2022. This represents an increase of 780% … over 9 times the rise in income earned by the average American household.
- Over that period, the portion of prime work-age persons in the bottom quintile who actually work has fallen to 36% from 68%. The percentage of workers in the middle quintile has actually risen to 92% from 86%.
- After counting all transfer payments as income to the recipients and taxes as income lost by taxpayers, and adjusting for household size, the average households in the bottom, second and middle quintiles all have roughly the same income – despite dramatic differences in work effort.

Requiring all able-bodied Americans to work as a condition for receiving welfare would do more than reduce the deficit. It would bring people back into the economy, the source of prosperity and economic independence.

Phil Gramm/Jodey Arrington – WSJ 9/11/24

Researchers found that although people have been complaining about a moral decline for generations, their behavior toward one another really hasn't changed. The study, titled *The Illusion* *of Moral Decline*, examined research going back for decades from 60 countries and included 575,000 participants:

- A consistent majority believe that most people are less good than they were in the past. They also believe that the decline began in their lifetime.
- Yet, year after year, people reported that others do nice things for them, and they do nice things for others.
- They almost consistently said that their own friends and family members behave better than ever.

> **People think the world has gone to hell in a handbasket. But as far as we can tell, it's just the same as it always was.**
>
> **Adam Mastroianni, Author/Psychologist – WSJ 8/11/24**

The discrepancy is attributed to the fact that we have a negativity bias, which is a survival instinct. Memory also plays a part, as we often remember the past more fondly … the emotional power of positive experience stays with us longer than that of a negative one.

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