Welcome to Money for the Rest of Us Plus. This is the premium podcast episode for Plus members, episode 565, recording this Friday, September 25th, 2026. In today's episode, I'll discuss some portfolio trades I made in my portfolio yesterday. We'll look at the performance of U.S. and non-U.S. stocks during the fourth quarter, particularly in midterm election years in the U.S. We'll take a look at the difference between the Virtus Seix bank loan mutual fund and its ETF.

We have a question from a member comparing two high yield bond bullet ETFs. And then finally we had a question from a member on Vanguard's fully paid lending program. This is its security lending program. Just an announcement. We will not be releasing the October investment strategy report next week, with the October 1st falling on a Thursday. That doesn't give us enough time to pull that report together. So that will be released on Saturday, October 10th, 2026.

Next week, there won't be a regular podcast episode or Plus episode. I'm hoping to spend some time on some retiree specific model portfolios that we would like to release, as well as some other programming that I'm working on. So that's what's going on next week, along with writing on my book.

Portfolio Trades: Trimming Small Cap Value

All right. Yesterday, I made some portfolio trades. I reduced my small cap value equity exposure after some some strong performance for small cap, I reduced my exposure to the Avantis International Small Cap Value ETF, AVDV, and I exited the Longleaf Partners Small-Cap Fund, LLSCX. I increased my allocation to small cap back in December 2024, and it's grown to 55% of my overall stock allocation, and I continue to be overweight after these changes.

I added Avantis International Small Cap Value ETF in 2024 in December, and it's done incredibly well. 75% cumulative return, 37% annualized. And it's just gotten to be too big. So I pulled back some and kept it in line more with the Vanguard International Small Cap ETF that I have. The Longleaf Partners. That was a mutual fund I added in December 2020 as part of, I don't know, I guess you could say I was feeling bad for active managers, and I allocated to two active managers I'd invested with in the past, or thought that they could be skilled stock pickers.

Ignoring the data. I added a Tweedy Browne mutual fund as well as this Longleaf. I since exited Tweedy Browne, it didn't do very well. Longleaf Partners Small-Cap also did terrible, return 2.5% annualized and that’s before tax. For whatever reason. Ignoring asset allocation principles, I put the Longleaf Partners Small-Cap Fund in my taxable account.

And so one reason I haven't sold sooner, even though we discussed it in our in our live stream, which was Plus episode 564, that it would take over 900 years, if not forever to determine that Longleaf Small-Cap was actually skilled and not lucky or unlucky in this case, I exited the fund. I did have a realized gain, and that's one reason I made this next shift in my portfolio.

Swapping a Corporate Bond ETF for TIPS

I sold the Invesco BulletShares 2031 Corporate Bond ETF, BSCV, that was also in my taxable account. And. And by selling it, I was able to recognize a slight loss because interest rates have risen and that pretty much offset the gain I had in Longleaf Partners Small-Cap. I took the proceeds from liquidating the small cap and the Invesco BulletShares 2031 Corporate Bond ETF, and I redeployed those into a three year Treasury Inflation-Protected Security.

The CUSIP for that TIPS, which expires October 15th, 2029, is 91282CLV1. I'll put that in the show notes. Yield to maturity is 2.5%. When I entered into BSCV, I locked in a yield of 5% and we've seen the. The spreads on investment grade bonds narrow even since I. The two years ago when I added BSCV and so I think the SEC yield right now is on that ETF's around 5.3%. So with the yield to maturity on the TIPS of 2.5%.

If inflation comes in at two and a half, 3%, it'll do as well as BSCV and I won't have to worry about any impact to spreads widening for investment grade corporate bonds if there's some type of recession or things along those lines, as well as potential default risk, which is small. The other change I made in reducing AVDV is I reallocated increased my allocation to the iMGP DBi Managed Futures Strategy ETF, DBMF. I wanted to increase my allocation to managed futures. I first added that position in March 2026.

So those are the changes I made. There's a write up on the on the website under my portfolio trades, and I'll include a link to that in the email I send out.

Fourth Quarter Seasonality in Midterm Election Years

A member asked about seasonality of U.S. and non-U.S. stocks during the fourth quarter. In the fourth quarter, stocks traditionally have done better than they do the rest of the year. And so I pulled the data from Asset Camp. We'll take a look at the MSCI USA index and the MSCI World ex USA index. And indeed during the fourth quarter, U.S. stocks are positive 82% of the time, with an average return of 4.6%. This goes back to December 1969. Non-U.S. stocks are positive 75% of the time.

Average return 4.1%. Now, if we compare that to the other three quarters first quarter through Q3, they're positive 67% of the time, with an average return of around 2% for both U.S. and non-U.S. stocks. And so definitely fourth quarter seasonally is just a better time for the stock market. Now, if we look during presidential election years, U.S., 79% of the time it's positive. Average return 2.4% and non-U.S. 64% of the time. Again, around a 2.5% return.

And that's during when there's a U.S. presidential election. Surprisingly, when there's a midterm election like this year, U.S. stocks are positive 86% of the time, an average return of 6.6%. And so that's remarkable, really. Non-U.S. positive 71% of the time during midterm election years, with an average return of 5.3%. So we have a very favorable seasonal cycle this year where there are midterm elections in the U.S.

So that's an update on on the seasonality of stocks during the fourth quarter.

Virtus Seix Bank Loan Fund vs. Its ETF

Next, a member has been invested in the Virtus Seix floating rate mutual fund, ticker SAMBX. He's considering moving to the ETF version, SEIX, and he's noticed some slight differences in performance. Fairly close but but wants to know how similar are these funds. He noticed that the principals, the asset or the the portfolio managers are the same, but they appear to have more invested in the mutual fund and mutual fund's been around a long time. I. As an institutional investment manager, we.

We allocated clients to SAMBX. It was the first bank loan fund that I invested in. I'm currently invested in the ETF version. And if we look at overall assets, SAMBX has 1.3 billion. The ETF version has around 290 million. So much smaller. It's newer of course. And the primary advantage of ETFs they're just more tax efficient. And so the ETF is is actually the better product for taxable individual investors. They are very very close. So they each have around 230 to 240 individual positions.

And the their allocation coverage or their their overlaps about 83 to 86%. So very, very similar. Most of the positions are the same. The average loan coupons around the same about 7.2 to 7.4% years to maturity, same 4.8 each, 4.8 years, the pricing similar and their allocation in terms of their top ten issuers, around 13% in the top ten.

And they're essentially the same now. There's there's some holdings in the past, for example, SAMBX has done more direct lending, but the five year annualized return is very, very close. And so I would be very comfortable if someone was invested in SAMBX and they wanted to switch to the ETF. Essentially it's the same product other than SEIX has a little lower expense ratio, I believe. I thought I had written that down, but apparently I did not. But it's definitely more tax efficient.

Comparing Two 2031 High Yield Bullet ETFs

Next question is from a member that has a mortgage payment, a balloon payment in 2031 and has set aside assets to cover that. He has, I believe, some some TIPS and some other government bonds to to fund that maybe even has some an investment grade corporate bullet ETF. But he was looking to to generate a little higher yield and had a conversation with ChatGPT about this and had some follow up questions. For me.

The two holdings that he was looking at is the State Street My2031 High Yield Corporate Bond ETF, ticker MYHE, and the iShares iBonds 2031, IBHK. ChatGPT seemed to, I might be misconstruing this, but favor MYHE. I do not. The funds are pretty close. IBHK has been around much longer. They. They both mature in 2031, but the biggest difference that would steer me away from MYHE, the State Street product, is they only have $6 million in assets versus 78 million for IBHK, the iShares product. And in investing in a fund that small.

I mean, there's no guarantee they won't shut that fund if it doesn't get more assets. We don't know. The SEC yields are about the same 7.6% versus 7.3. Expense ratio is pretty close 39 basis points for the State Street product and 35 basis points for the iShares product. Now, when we think about the yield to maturity is a little different, and I couldn't figure it out. MYHE is around 8.6% and IBHK is at 8%. Their duration is about the same at 3.3 years, and their.

Their credit quality is. This is non-investment grade, so they each have around 55% in double B and around 40% in single B, and then sort of 4 to 5% in triple C rated non-investment grade bonds. So the idea is that this this member has a a bullet position wants to create a little more yield. So if if they're yielding seven sort of low sevens, we have to keep in mind is there will likely be defaults, especially if we get a recession.

And so that 7.6% yield is not guaranteed if defaults end up being on average, let's say they average 4% and there's a 50% recovery that that could reduce the the overall annualized return by about 2%, bringing us down to 5.5%, which given what investment grade corporate bonds are yielding and their defaults are much lower, that's about what ability to one the one I just sold, BSCV, at around 5.3%. And so when you're investing in high yield, it's coming down to what's the average default rate across those portfolios, but I would not invest in MYHE just because it's the number of assets it has.

It's it's much smaller. IBHK is actually more diversified with 302 holdings, around 180 for MYHE again, but very, very small ETF.

Vanguard's Fully Paid Lending Program

Finally, a member asked about Vanguard's fully paid lending program. This is their security lending program for individual investors. I last spoke about securities lending back in 2021, and I can't believe it's been five years since we've talked about it. It seems like it was yesterday. But you can sign up for Vanguard's securities lending program. So they're taking the securities in your portfolio, individual stocks or ETFs, and they're lending them to short sellers.

Short sellers borrow shares and in hope that the price will fall, they borrow the shares. They they sell them and then they buy them back. And if. If the individual security fell, they bring back at a cheaper price and they make money, the minimum that you need to have in your account in order to participate is $500,000. And the way their program is structured is you keep 50% of the loan fee, and typically the minimum is 25 basis points is what Vanguard is getting and what they do.

I mean, this this security or ETF leaves your account and then you get collateral that's held at a third party custodian. That's that's worth 102% of the value of what was borrowed. And 102%. That's pretty typical. It's marked to market daily.

And now you can you can enroll in the program at any time. You can sell your security that was borrowed at any time and they'll unwind it. But that's kind of how the program works. Now what what are the wrinkles? Well, one shares that are loaned out are not covered by SIPC. And that's why you have this collateral, which essentially the collateral ends up being short term treasuries. So that's your protection there. And it's held with a third party custodian.

Another wrinkle, I didn't realize this and I didn't talk about this last time, but dividends that arrive, you'd still get the dividend of your underlying security that you hold. But they're taxed as ordinary income, not qualified dividends according to US tax rules, because it's basically kind of a substitute payment. Vanguard tries to offset that because it credits an additional 27% of the payment to sort of adjust for the fact that these are not qualified dividends at a lower tax rate.

They're taxed as ordinary income. And so you get an additional boost because of that. When you if your securities borrowed the voting rights transfer to the borrower. So if you're into voting proxies, if the the stock leaves, you're not able to do that. And the other thing to keep in mind is that it's going to be only securities that are in demand, that are borrowed. So not every security in your portfolio will be borrowed.

What You Can Expect to Earn

So what can you expect to earn if you participate? Securities lending is big. There was close to $15 billion in revenue tied to securities lending in 2025.

There's $46.7 trillion of securities that are part of securities lending programs in the US, probably globally. When I was an institutional asset manager, we some of our institutional clients, they participated in securities lending programs, and their custodian broker, such as BNY Mellon, would lend out securities. And it was it was a moneymaker, but not not huge. You know, on average, you get about 0.45% on the shares that are lent.

But at any time, only about 7% of the portfolio could be lent out, which means you're adding about three basis points of additional return by participating. So it's it's not a lot, but it potentially is something. And then if you if your allocation and you're mostly in VTI or other Vanguard index fund ETFs, they're just not lent out as much because there's there's so many. What's lent out more is just stocks that are hard to borrow that there's not as many, let's say, a small cap stock.

And in that case, you could get several percentage points if that individual stock is borrowed, which is nice, but you know, not a lot. So this is fairly low risk. It's pretty standard. You can participate if you want. But but your return, your additional yield 3 to 5 basis points across your entire portfolio, unless you happen to have a portfolio of illiquid small cap stocks that are difficult to borrow and they're the the borrowing rates are much higher. That then is Plus episode 565.