Special Market Missive and Portfolio Strategy Update
May 10, 2022

So far this year, many sectors in the equity market have entered bear territory declining by up to 27%. The likely culprits responsible for this decline are as follows:

1.Concerns about rising and lasting inflation and the impact that could have on global economic growth,

2.A change in monetary policy across the globe to systematically move interest rates higher,

3.An ongoing war in the Ukraine that could be a prolonged battle that would reduce the world's supply of oil, gas, and certain commodities,

4.A domestic energy policy that has focused on reducing the production of oil and gas that has resulted in record oil and natural gas prices and,

5.An enormous amount of speculative investing in risky assets such as bitcoin and other crypto-"currencies" and NFTs (non-fungible assets) that are typically linked with digital art. Much of this investing has been made on borrowed funds that have to be repaid when called.

Mr. Market does not like uncertainty. Remember that just two years ago the pandemic hit, and the subsequent government shutdown of the economy produced equity market losses of over 30%. Yet, the stock market closed 2020 with a double-digit increase.

Unfortunately, the circumstances are not the same this time around. For one, the federal government's response to the effects of its own shutdown was to shower the economy with over $7 trillion through various support programs. This largesse translated into massive speculation in both equity securities and the rising popularity of new-fangled "investments" such as bitcoin and NFTs. Speculation and novice investors drove the prices of many equity securities well beyond reason and recently the speculative bubble that characterized these securities burst. Owning exchange-traded or mutual funds that hold these securities could be risky for investors who could experience their meltdown. However, owning the individual securities in these funds could help investors weather the storm as we explained in yesterday's Missive.

Our Thematic Growth Equity strategy, which invests in growth stocks of all market capitalizations, has suffered as investors have sold to meet margin calls or shifted to their value brethren. Early this year, we identified and sold stocks that had unusual price increases relative to growth expectations. We deployed a similar approach to the equity portion of our Growth & Income strategy. This strategy included both growth and value stocks and fixed income exchange-traded funds to reduce overall volatility. We continue to monitor all current holdings closely and are confident that companies that can sustain reasonable growth in earnings will come out of this market decline in a position of strength and benefit from the new market expansion.

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Our Target Return asset allocation portfolios are well-diversified in broad based, low-cost, indexed exchange-traded funds and are not exposed to the risks inherent in actively managed funds that are likely to underperform in this weak financial market environment. The fixed income exchange-traded fund holdings in our Conservative and Moderate portfolios are short-to-intermediate in duration that should minimize the impact on principal in a continually rising interest rate environment. Such funds are likely to experience rising income distributions as these funds acquire higher yielding bonds. We have concentrated our investments in the U.S. and have reduced, if not eliminated, holdings in foreign exchange-traded funds.

The current financial market weakness has been an unfortunate characteristic of a long-term secular bull market advance that began in March of 2009. More recently, the market's outperformance during 2019-2021 timeframe exceeded virtually all market forecasters' expectations – including ours! The Covid pandemic in 2020 interrupted everything and came out of left field – a possibility that is inherent when investing but dreaded when it arrives. Again, a correction of some magnitude was expected but the timing and size of that retracement was difficult for most of us to predict. The surprise invasion of Ukraine has added to short-term market risks as an already overloaded supply-chain condition that just started healing took another blow.

Nonetheless, there ARE some silver linings in this cloud. Corporations have never been better financially with record cash stockpiles and debt financed at low levels. They are likely to continue to buy back stock and increase dividend payouts. Consumers continue to benefit from the government's cash distributions over the past two years. They have not spent all the free money they received but have reduced their liabilities such as credit card debt. More importantly, since their wages are rising, they have more in their wallets to spend on discretionary goods and services. Governments at all levels are benefiting from rising tax revenues such as sales taxes, real estate taxes and capital gains taxes resulting in overflowing coffers. These tax revenues will be spent in years to come helping to keep the overall economy on a growth trajectory.

In closing, we remain committed to implementing our investment strategies utilizing the same consistent approach that we have been using since inception. In particular, the Thematic Growth Equity strategy that we began in 1994 with our own assets has produce well-above average returns over the past 27 years and survived three bear markets! The Growth & Income strategy that we began in 2004 has also been successful. The Target Return portfolios that were created back in 1995 but did not fund until 2012 are producing returns right in line with their targets.

Our regular readers and clients know not to "get off the train" during difficult times such as today otherwise your investment goals will never be attained. Even though the current outlook remains cloudy, history tells us that the clouds always clear. Keep the Faith. Faith is the Spirit!