ST. JOHN & ASSOCIATES
INTEGRATED FINANCIAL SERVICES

2022 1st Quarter Financial & Investment Management General Commentary

Consistent with prior quarterly commentaries, this publication is designed to provide our clients with important information regarding economic conditions, the market environment, portfolio management and various other relevant financial matters. While it is designed to be informational, it also serves as a discipline in assessing and synthesizing relevant market data, allowing us to better serve our clients (the art and science of data in the creation of value). As a firm, we are continuing to actively monitor the investment landscape in an effort to maximize the returns of our client portfolios over the long-term while working to manage the risk-efficiency of the assets during times of market distress. If you have any questions or would like to discuss any of the material in greater detail, please give us a call.

FINANCIAL PLANNING

Inflation As It Relates to Financial Planning

The question of how we will consider inflation in our client's financial plans has come up recently. We are all quite familiar with the current inflationary environment (we will address this later in this commentary) and we need to consider how best to model that in our financial plans.

The federal inflation "mandate" has been described by the Fed in terms of price stability as steady inflation, which came to mean the maintaining of 2% inflation over the years. However, the Fed changed its definition recently from just 2% inflation to 2% *average* inflation. In other words, the Fed is willing to tolerate inflation numbers above its target level for short periods in order to advance its other mandate, maximum employment.

We are presently modeling plans with a 3.91% inflation rate on most goals and a higher inflation rate for college and medical cost goals as they have historically outpaced baseline inflation. We review these regularly but must remain mindful that we are projecting inflation over the life of the plan, which is often decades. We can't be overly influenced by current rates when applying a long-term inflation outlook to our financial plans.

Social Security

Social Security is a part of the "three-legged stool" often referred to when describing America's retirement system. The legs are: work related pension, personal savings, and Social Security. The pension has by and large been replaced by an employer 401k retirement savings account. Savings rates and rates of return on investments are uncertain and subject to the risks inherent of the markets. Social Security has proven to be the most predictable and certain since the first checks were issued in 1940.

However, Social Security's financial resources are declining and fixing them is primarily in the hands of the U.S. Congress. On its current path, the program will no longer have enough money to fully pay its promised benefits in just over a decade. Presently, in the absence of any Congressional change, calculations show only 78% of promised benefits would be paid. We review, based on several factors, how much Social Security to include in each client's financial plan.

We recommend to our clients that they go to the Social Security website and establish a ***My Social Security*** account so they have the most up-to-date benefit estimates. Go to https://www.ssa.gov/myaccount/ and set up a My Social Security account by following the instructions.

Taxes

Now that many of you are getting your tax returns for 2021, one question in particular comes up.

Q: Am I sure my tax withholding is correct? This one is asked especially if a client has experienced a significant refund or a tax bill after filing. Best practice is to check this at least once or twice during the year. Here is a good resource:

https://www.irs.gov/individuals/irs-withholding-calculator

Additionally, you can use the IRS safe harbor rule to avoid an underpayment penalty. The safe harbor method allows you to avoid an underpayment penalty if:

1. You owe less than $1,000 in tax after subtracting your withholding and refundable credits, or
2. You paid at least 90% of the tax you owe via withholding or estimated payments or 100% of the tax shown on last year's return, whichever is smaller.

There's a special rule for high-income taxpayers, meaning those with an adjusted gross income (AGI) of $150,000 or more ($75,000 for married couples filing separately), which entails a need to pay at least 90% of the tax they owe this year or 110% of the tax shown on last year's return, whichever is smaller.

To find the safe harbor amount using the tax shown on last year's return (described in item 2 above), look at your previous year's tax return and locate the Total Tax line on the second page of Form 1040. Pay either 100% or 110% of that amount by year-end and you're in the safe harbor.

There are times when using the 100% /110% safe harbor method doesn't make a lot of financial sense. For example, let's say that in the prior year, you had a large one-time payment of income that boosted your tax to $25,000, which is $10,000 more than you normally pay. You know that you won't have that extra income in the current year. Rather than rely on the 100% /110% of prior tax safe harbor, where you'd be prepaying $10,000 more than your current year's tax is likely to be, it may be appropriate to use the 90% current-year tax safe harbor, determined by making a projection of your current year tax, and as the year goes along, monitoring your income and the tax paid in to be sure you are on track to reach the 90% goal. For our financial planning clients, we are happy to discuss this in greater detail.

Retirement Changes

The House of Representatives has passed a bill that will improve the retirement savings system for U.S. workers, moving it close to becoming law. The Securing a Strong Retirement Act, H.R. 2954, also called the Secure Act 2.0, was approved on March 29th with a bipartisan vote of 414-5. Now, the legislation heads to the Senate.

Standout provisions include moving the Required Minimum Distribution (RMD) from age 72 to 75 gradually over a period of years. IRA catch-up provisions for those over 50 would be indexed for cost-of-living adjustments. Changes in Roth contributions to employer-sponsored retirement plans are scheduled. There is a lot in this bill. Here are the details.

College Planning

This is one area where we really try and help. College can be the largest expense that most households incur, usually second only to buying a home. If you have several children, you may find you have more than one in college at the same time. We sometimes see clients undermining their future retirement by trying to pay for it all. Given today's high cost of higher education, many of you would appreciate a tuition discount. Some schools will give it and some simply won't.

When taking a look at the higher education landscape, Jeff Selingo, a higher-ed thought leader and the former editor of the *Chronicle of Higher Education*, divides up private and public colleges into two camps: buyers and sellers.

The sellers, as he puts it, don't need to buy students with tuition discounts because they are deluged with applications from top applicants. Most sellers offer financial aid only to students who really need it or are truly exceptional.

The buyers, even though they can provide a superior education, must hustle to fill their freshmen classes. To get enough students in the door, buyers must discount tuition through merit aid.

Here are the three factors that separate the two camps:

- Percentage of applicants admitted.
- Yield rate (the percentage admitted who chose to enroll).
- Percentage of institutional aid that is non-need based, otherwise known as merit awards.

The lower the admition rate, the higher the yield, and the lower the percentage of merit awards, the more likely the school is a seller.

In Selingo's observation, the sellers typically admit less than 20% of their applicants. That compares to colleges as a whole that admit two-thirds of applicants.

As for the acceptance yield rate, when sellers make an offer, nearly 45% of students accept. In comparison, the yield for many colleges is below 25% and it can be much, much lower.

The final fact separating the buyers from the sellers is especially pertinent for affluent families. Only 7% of sellers, according to Selingo, dispense merit-award discounts to students who don't need financial aid, but nearly a third of aid at buyer institutions is merit-based. Of course, both types of schools provide need-based financial aid.

You don't have to conduct your own research to discover which colleges and universities fall into each camp. On Selingo's website, you'll find a tool that will allow you to check out hundreds of private and public colleges.

On the site, you can download a spreadsheet that contains lists of schools in six different institutional categories that designates each school as a buyer or seller. Within the buyer category, Selingo also designates some schools as mild buyers and extreme buyers.

The spreadsheet also shares such pertinent information as the percentage of students receiving merit scholarships, the acceptance rate, the yield, as well as the average net price by certain income brackets.

Via the spreadsheet, you can explore schools in these categories:

- Ivy League and elite universities
- Elite small colleges
- Highly selective universities
- Highly selective small colleges
- Selective privates
- Selective publics

Qualified Charitable Distribution (QCD)

For those who are 70 1/2 or older, one way to make a charitable contribution is through a QCD. QCDs are not includable in income and the QCD is also not deductible. As such, the QCD can remain an option for your charitable giving, even if you claim the standard deduction in a given year.

Additionally, if you are over 72 years old after June 30, 2021, you are subject to a required minimum distribution (RMD) from your IRAs. The rules for QCDs allow you to use part or all of your RMD as a Qualified Charitable Distribution and still satisfy the RMD requirement.

The maximum annual distribution amount that can qualify for a QCD is $100,000. This limit would apply to the sum of QCDs made to one or more charities in a calendar year. If you're a joint tax filer, both you and your spouse can make a $100,000 QCD from your own IRAs.

FINANCIAL MARKETS

The Economy

The news has recently released a lot of economic forecasts and predictions that vary across a number of spectrums (i.e., GDP growth, inflation expectations, interest rate hikes, etc.) Many of these are easy to see and you experience them on a regular basis. Some are less noticeable to most but they will have an impact to varying degrees.

Inflation

This is front and center with everyone today. While inflation has been growing for the past year relatively slowly, it has picked up speed in the last few months to hit a 40-year high. Inflation is calculated on many levels, and in many cases, one part of the inflation calculation can push up the overall number, yet it may not be something that affects everyone the same. Based on the last couple of readings of the Consumer Price Index (CPI), the top three inflationary segments are hitting everyone hard. These three components are Food, Energy and Housing. Food prices are soaring, which impacts everyone. Based on data provided by the US Energy Administration, gas prices have not reached current levels since 2008. Housing also continues to rise based on the supply / demand imbalances and the elevated costs of construction materials. We have never viewed inflation as "transitory" as the Federal Reserve did in 2021, and we expect it to get worse before it gets better based on the conflict in Ukraine, variants of Covid and continued supply chain disruptions.

With Ukraine delivering much of the food to Europe, increased competition for exporting will further raise costs. They are also the largest producer of fertilizer, which will affect grain crops used to feed livestock. This coupled with a bird flu epidemic, causing the loss of a huge chicken and turkey population, will further contribute to an increase in the price of meat. In March, it was estimated over 12.6 million chickens and turkeys in at least eight states had to be killed or destroyed. As summer driving picks up, we expect oil demand to rise and without the supply from US oil increasing, we are relying on other countries to produce more. The new lockdowns in China will not only limit the metals needed to build batteries and chips for electronic components of electric vehicles, but will also limit steel available for construction.

Housing prices and mortgage rates

Interest rates are increasing, which is great if you are loaning money, but not good for borrowing. New mortgages and variable home equity loans and lines will be going up. New mortgages just eclipsed the 5% mark. Higher interest rates combined with higher housing prices will eventually cause a slowdown in the housing market which generally results in a decline in home prices. For now, the lack of inventory is keeping the housing market propped up, but in time it will peak. Mortgage values are a combination of interest rates and demand and although demand, only marginally slowing, interest rates are still on the rise.

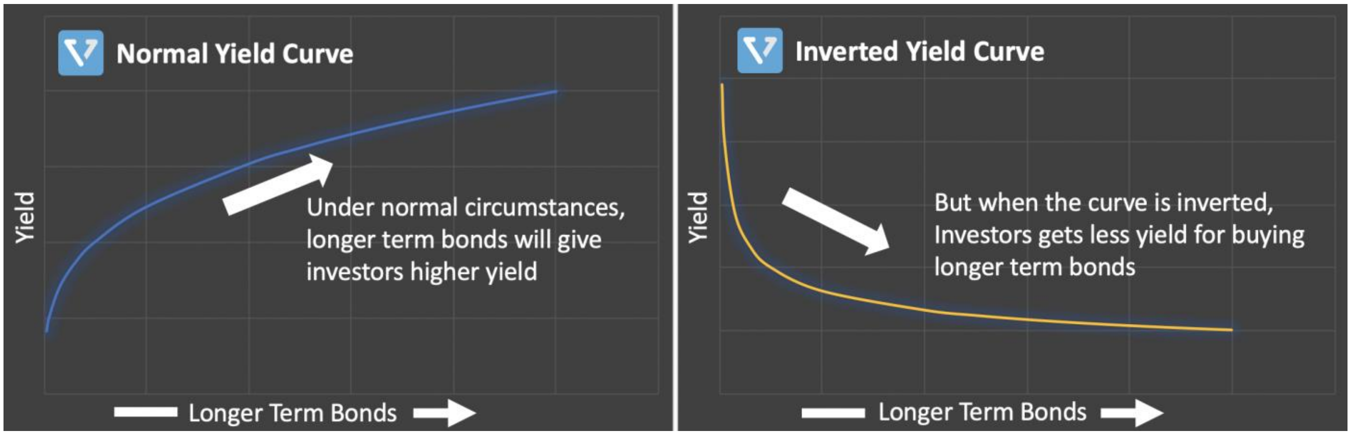
Yields and the Inverted Yields Curve

"Yield" refers to the earnings generated on an investment over a particular period of time. It's expressed as a percentage based on the invested amount, current market value, or face value of the security. When we discuss a yield curve, we typically look at yield as the interest earned from holding a particular security divided by what it would cost you to purchase the security.

The yield curve, as illustrated below, is basically the difference between US Treasury yields of different maturities. Ordinarily, it’s “positively-sloped,” meaning that longer-term yields are usually higher than shorter-term yields. That makes sense, because when you loan money to someone for a longer period of time, it’s reasonable to expect a higher return as compensation for having your money locked up for longer.

But sometimes, that relationship goes into reverse – becomes inverted – with short-term rates somehow ending up above longer-term rates. Typically, that only happens during times of economic stress. In fact, when the yield curve “inverts,” one thing you can count on is that CNBC, Bloomberg, and just about anyone else who comments on markets will start using the “R-word” (recession).

The fact that we have seen a brief inversion of the yield curve by the 2 and 10-year Treasuries has increased the concern and commentary of a pending recession. The leading narrative is that an inverted yield curve has been a precursor to every recent recession. However, when you look at the reality of inverted yield curves, one- or two-day inversions are exceptions to this rule. Most recession-predicting yield inversions go one for several weeks and not a day or two. We are not trying to downplay the risk of a recession, only that an inverse yield curve is not a guarantee we will experience a recession.



For illustration purposes only. Not an actual representation of the current yield curve

The Fed Chair, Jerome Powell, wants you to believe he and the rest of the FED have a clear enough view of what's going on in the economy as they raise rates to combat inflation while attempting to avoid an economic slowdown and recession. For the Fed, it is a balancing act of not raising interest rates too fast (which could push the economy into a recession) or too slowly (which risks losing control of inflation).

Fortunately, the inversion has not spread to the corporate credit market (yet?). Whether or not the recent curve inversion means economic turbulence is therefore debatable, especially since other, more closely-watched segments of the yield curve remain exceptionally flat but still upward sloping. But upside-down is still a pretty unusual profile for yield curves and, at a minimum, this suggests that some kind of adjustments are needed, but it is a very thin line to walk.

Strength in the Labor Market

We got more confirmation of exactly how strong the labor market is when the Department of Labor last released a count of how many Americans had filed for first-time unemployment benefits. The number was only the third time this century below 200,000. Notably, all three recent examples below 200k have come in the last 12 months.

This number however is misleading on two levels. The first is we lost an enormous amount of employment during the pandemic. The level of employment is still not back up to the level of employment pre-pandemic. The second is a huge amount of people have made the decision not to return to the workforce. Unemployment levels do not tell the full story.

Rising Interest Rates

If you are carrying revolving credit card debt or have variable rate loans, higher rates are bad news because your bank is likely to be slow to pass on higher yields on your checking and savings accounts. However, they likely won't hesitate to charge higher interest rates on outstanding debt. Paying down or eliminating high interest debt should always be a priority when it comes to your finances, but it is even more important when rates are rising.

Higher rates bring opportunities and risks. We urge our clients to stay focused on long-term goals and stick with strategies that are shown to work over time. We advise against getting too caught up in extrapolating what future rate hikes may occur and what the implications may be, and instead focusing on implementing a holistic financial plan.

Investment Markets

Entering a new market regime

We said at the end of last year that we were entering a new market regime. We thought bonds would suffer from inflation and that the central banks would be forced to deal with it. We also discussed weaker equity returns from the high-flying growth stocks and how the international market should begin to find its footing following the pandemic. We indicated and highlighted an expectation that financial markets would experience heightened levels of volatility with bonds carrying a negative real return on an after-inflation adjusted basis. So far, this seems to be the case.

Global equities vs. bonds

Both bonds and equities have experienced negative returns year-to-date. Through March 31, 2022, the MSCI World equity index is down -5.2% and continued lower following quarter-end. The Russell 3000, a broad domestic index, lost -5.3%. The Bloomberg US Aggregate bond index was down -5.9% for the first quarter. One notable observation was the breakdown in correlations between the equity and U.S. Treasury market (generally Treasuries are a flight to safety during times of market distress).

We expect rising interest rates to continue to pressure and challenge bond returns. On the equity side, we see inflation having a negative effect on earnings as the cost of production and shipping will continue to rise. Only so much of these costs can be passed on to the consumer and earnings and operating margin will likely be negatively impacted. Higher interest rates for businesses hinder expansion of products and new factories and the lack of parts, especially chips, brings production to a standstill for those products with any electronic components. We continue to expect lower growth this year, especially in Europe, and higher and more persistent inflation.

What are the risks?

The war has spurred a drive for energy security and created an energy supply shock that came on top of an existing one from the Covid-19 impact. The result: higher and more persistent inflation.

The Fed is projecting larger and faster increases in interest rates over the next two years in an attempt to starve off inflation. It's easy to talk tough, but in a world shaped by supply, with a reduction of US oil production, manufacturing bottlenecks and high commodities prices, monetary policy can only tame inflation at a high cost to growth and jobs.

And yet the Fed still projects low unemployment. To us, this signals its true intent: live with inflation to maintain economic activity and jobs. If the Fed gets it wrong, markets and consumers could lose faith that central banks can keep a lid on prices. This possibility makes the risk more real.

We remain pro risk on a tactical horizon and prefer equities over credit. The inflationary environment favors stocks, in our view, and many developed market companies have been able to pass on rising costs and keep margins high.

We see more downside risk for government bonds. Although we prefer equities, we view the ability to tactically move within a variety of markets allowing for diversification, including but not limited to equities, is critical. Commodities continue to do well and we see those remaining a staple of the portfolio.

Equities

The last few newsletters, we have warned of the overpriced nature of stocks, primarily the high growth stocks that have run up over the past several years. What we warned was that markets may become bumpy day to day and flat annually. We warned future returns could be minimal because the price of equities relative to any measure was as high as it had ever been. Future equity returns following high prices tend to be low. For example, equity valuations were high at the end of 1999, and the following decade saw a broad market annualized return rate of -0.95%. What this meant was that by investing in the S&P 500 from 2000-2009 one had less money even after dividends than they did at the beginning of the decade. For every dollar invested at the beginning of the decade, 90 cents was left by the end of the decade. This meant no one achieved their investment objectives by investing in the S&P 500 during the 2000's.

Unfortunately, we find ourselves in a similar position today. Future returns for equity strategies, which depends principally on price appreciation, are anticipated to be lower. Research Affiliates makes projections of many asset classes ten years out. Their current projection of the total return on U.S. Large Cap stocks is -0.70%, almost identical to the returns the index experienced in the decade of the 2000's. Now it is important to say that we should not take that exact projected return literally. It is not intended to be an absolute projection. We think of it more as a possibility, since markets often rhyme. It is telling us what we have said in our last few newsletters, stock price valuations are high, future returns will be low and we need to be cautious and disciplined.

Fortunately, we have some data on returns when we had similar valuations. At the end of 1999, domestic stock valuations were higher than we had ever seen them up to that point. The following decade provided investors with an environment of extreme volatility; twice the S&P 500 declined 37%, in 2000-2002 and 2008. While all investors can accept some level of volatility because they believe volatility is a necessary part of equity investing, the expectation of investors is they will achieve returns that are reasonable. A return of -0.95% was not what any investors had in mind when investing in 2000, especially at that level of risk and volatility.

During the decade of the 2000's, a similar dividend strategy (used within many of our client portfolios) compounded at 7.7%. This strategy began the decade with a 4% dividend yield and saw dividend increases during the decade of approximately 7%. This cash flow accounted for most of the returns during the decade. Today, as we have been shifting our portfolios to a higher dividend equity portfolio, we are looking for a dividend yield on our portfolio of about 3.5%. If we get similar dividend growth, we can expect a return of slightly less than the 7.7% of the 2000's. The key issue is, we expect our dividend strategy will meet the investment return needs of our clients while an investment in indexes will not over the next decade, and even active strategies that are dependent primarily on price appreciation may be challenged. While the dividend yield provides current income, it also serves to dampen the risk and volatility of a total portfolio.

Now some analysts will counter this argument by pointing to the returns of the last 3 years. An investment in domestic equities using the S&P 500 for 2019-2021 saw a double in total return. So, before tax, $1 invested on January 1, 2019 was worth $2 at the end of 2021. By any standard, that is a fabulous return. In fact, it is so fabulous that it has only occurred one other time since we have kept records on domestic returns. The other time was any sequential 3-year period from 1995-1999. It did not occur in the Roaring 20's or during the period when the Nifty Fifty was in its run or any other period outside the late 90s. Now, we know critics will say this time is different. They will say we have new technology and great companies that are changing our lives. We agree on the great companies that are changing our lives, but we disagree on the implication that the relative price of these companies will remain high. Look at the great companies of the late 1990s.

Some of them are doing well as a business, but still have a price at or below their peak over 20 years ago.

We believe the cash flow from our dividend portfolios will be sufficient to meet the investment needs of most clients, but we also believe we will experience continued volatility. This requires a longer-term disciplined investment approach in order to manage through periods of risk.

While we have no insights into the future, we do have a good knowledge of history and performance. You will see reports that the bear market is over. Actually, the Wall Street Journal had one on the last day of March. Do not believe it. Markets do not go straight up or straight down; they test our resolve. This market will as well. Today we have inflation, a war in Ukraine, supply chain disruptions, emerging variants and derivatives of Covid and a decoupling of the global economy. These are conditions that require a prudent investment strategy to navigate the market landscape. We believe it's reasonable to expect continued bouts of volatility with potential down-side risks given all the uncertainty. However, it’s important to continue to have a perspective regarding the longer-term objectives and portfolio performance.

There may also be a mix of the use of “Bear Market” as we actually have two kinds of Bear Markets, a secular bear and a cyclical bear. Cyclical bear markets are what is more in the news every day. They are based on markets where stocks or indexes rally for a period, but the gains are not sustained and prices revert to lower levels. In the short-term, the markets can experience up and down movements within a year. A cyclical bear market can last anywhere from a few weeks to several months. A Secular Bear market may follow a Secular Bull Market. It is a fundamental long-term shift in the long-term expectations and is very hard to predict in the beginning if it is a Cyclical Bear market in a Secular Bull run or the beginning of a new Secular Bear market. A secular bear market can last anywhere from 10 to 20 years and is characterized by below-average returns on a sustained basis. So, the question remains, which type of market are we in?

Bob Farrell’s Investing Rules

Bob was the Chief Investment Strategist for Merrill Lynch, started his career in 1957 and worked on Wall Street for over 50 years. He is a legend on Wall Street and along the way he posted his top 10 rules for investing. They have been widely followed since they were first published. We think they offer a good reflection on how to think about investments as we move forward. They are as follows.

1. Markets tend to return to the mean over time.
2. Excesses in one direction will lead to an opposite excess in the other direction.
3. There are no new eras—excesses are never permanent.
4. Exponential rapidly rising or falling markets usually go farther than you think, but they do not correct by going sideways.
5. The public buys the most at the top and the least at the bottom.

6. Fear and greed are stronger than long-term resolve.
7. Markets are strongest when they are broad and weakest when they narrow to a handful of blue chip names.
8. Bear markets have three stages: sharp down, reflexive rebound, and a drawn-out fundamental downtrend.
9. When all the experts and forecasts agree, something else is going to happen.
10. Bull markets are more fun than bear markets.

Today, perhaps more than at any point in history other than 1999, these rules are important to understand and to review as we think about how we invest. Today, both the stock and bond markets are overpriced and project lower future returns. You can also expect higher volatility than normal if history is our guide. We think we are in the first phase described in Rule #8; however, it's important to recognize and appreciate that market cycles are temporary and investors are generally rewarded and compensated for the risk over the long-term.

Fixed Income

We have said this many times in many different ways, the Bond Market is broken. What we considered a safe place to invest for conservative investors or a place uncorrelated to the equity market is no longer a reality. For the first quarter of 2020, the Bloomberg Aggregate broad fixed income index was down -5.93% as the Russell 3000 Broad Domestic Equity Index was down -5.28%. There was certainly no down-side protection or diversification benefits realized by investing in bonds this quarter. You cannot achieve the investment return needs by investing in bonds. The current annual yield on the 10-Year U.S. Treasury is 2.35%. Some analysts think we will have transitory inflation while others think it will be with us longer. It does not matter which camp you are in on this topic. If rates rise and then decline quickly as some analysts are suggesting, that market would be telling us to expect very low growth in company earnings. Yes, it would also tell us to expect low inflation, but low growth results in lower equity returns and price-to-earnings multiples. If we get inflation for a longer period, then it's reasonable to expect losses across both equities and fixed income investments.

Portfolio Management

Our model portfolio continues to perform as expected by capturing a majority of the up-side while providing down-side protection during times of market distress. Portfolios that exhibit this type of performance generally result in more optimal outcomes in supporting long-term financial objectives. Down-side protection and minimizing huge market swings is a key principle to effective risk management and portfolio optimization. Our aim as a firm is to construct portfolios that are designed to perform well across a variety of market environments for the benefit of the clients.

If you have not met with us to get your portfolio moved to our new design, we need to meet with you. Unfortunately, there is a lot of discussion and paperwork that needs to be completed to transition and rebalance the portfolio. We ran into an issue last year of staggeringly high volatility temporarily pausing conversions, but it is now time again to consider making those changes.

Incorporate a small amount of Ark

One new manager we are incorporating into the portfolios is Ark Asset Management. While the strategy is expected to exhibit higher levels of volatility, over the long-term we believe there is value to be harvested in positively contributing to portfolio performance based on the disruptive nature of the technologies.

If the stock market experiences another downturn sometime this year, the Ark portfolio is anticipated to underperform based on the sensitivity to market movement. However, we believe that applying a five-year outlook will result in higher returns that ultimately reward investors for the exposure.

As this segment of the market is very volatile, right now the allocation to ARK is relatively small. We wanted an exposure for long-term growth, but in the event of a downward repricing, this may provide an opportunity to increase the allocation size over time in the creation of value. This area of the market is a long-term strategy as we expect more technologies to disrupt the way we live, interact, transact and do business in a good way. As with any portfolio model, the strategy should not be viewed in isolation but as a part of the total portfolio construct in contributing to the risk and return profile.

Be disciplined as we wait for other opportunities

It is natural for you to get anxious for new opportunities. We may experience low or even slightly negative returns for some time. This is an unfortunate reality of thoughtful, prudent investing. Patience and discipline are the virtues you will need to get through this period we have done with previous market cycles. While it is true that some corrections have come quickly, like March of 2020, there have been long, slow slides like 2000-2002. Given the uncertainty within markets, we attempt to prepare for multiple scenarios when constructing portfolios. While no one can predict the bottom, we will be a resource in successfully navigating the market environment over time. Remember that investing is a long-term approach in the creation of value and downturns are part of the experience.

Take advantage of illiquid investments

We are looking into some illiquid investments to enhance diversification and returns that are expected to deliver 6% to 8% depending on the product and qualifications. While these investments have lock-up periods where you cannot get your money out between three to four years depending on the product, they do offer diversification and returns that are uncorrelated to broader financial markets.

This may be appropriate for clients seeking current income, safety and capital preservation without the need to access the capital in the near-term.

The income generated can either be pulled out or re-invested. There are minimums and some have additional accreditation restrictions. We can discuss these options with you if you are interested.

Summary Statement

We have presented in this General Commentary an overview and roadmap for investing and managing your portfolio in the near future, but portfolios are constructed for the long-term and aligned with your Personal Financial Plan or longer-term objectives. They are designed to provide stable, consistent returns over time but will not completely eliminate risk and short-term bouts of volatility. Our focus is to navigate the market landscape by actively managing our portfolios in a manner that enables our clients to realize their financial objectives.

These are truly unprecedented times in financial markets with many external factors to take into consideration. Our investment objective of striving to exceed the goals of your financial plan has not changed.

Combining high and growing dividend yielding strategies with some disruptive technology exposure is expected to contribute positively to portfolio performance. Alternative Investment portfolios will replace bonds in providing a positive return over time, minimizing the interest rate sensitivity. Liquid and illiquid portfolios with high cash flows will produce consistent growth and income for clients needing it, and good diversification and attractive returns for all investors, regardless of the income needs. We are confident about the future because these new investment solutions will provide clients with attractive returns without increasing the risk in the overall portfolio.

Below are the returns for index categories making up the broader markets. Morningstar sourced these mutual fund returns. Returns beyond one year are annualized.

	1st Qtr. 2022	1 Year Average	5 Year Average Return	10 Year Average
S&P 500 Growth	-8.59	18.16	19.92	16.80
S&P 500 Value	-0.16	12.58	11.14	11.89
S&P Midcap 400 Growth	-9.04	-0.38	11.40	11.98
S&P Midcap 400 Value	0.60	9.96	10.37	12.12
S&P SmallCap 600 Growth	-9.51	-1.17	11.57	13.00
S&P SmallCap 600 Value	-1.64	3.73	9.98	11.96
DJIA	-4.10	7.11	13.40	12.77
S&P 500	-4.60	15.65	15.99	14.64
S&P 500 Equal Weighted	-2.72	13.11	13.89	13.95
S&P Mid-Cap 400	-4.88	4.59	11.10	12.20
S&P Small Cap 600	-5.62	1.23	10.89	12.56
Russell 1000	-5.13	13.27	15.82	14.53
Russell 2000	-7.53	-5.79	9.74	11.04
Russell 3000	5.28	11.92	15.40	14.28
MSCI EAFE	-5.91	1.16	6.72	6.27
MSCI EAFE Large Growth	-11.43	10.46	9.74	7.70
MSCI EAFE Large Value	1.26	5.57	4.14	4.58
MSCI Emerging Mkt	-6.97	-11.37	5.98	3.36
MSCI World	-5.51	10.12	12.42	10.88
MSCI US IMI Gold	-6.50	20.66	10.14	9.83
DJ Real Estate	14.58	38.99	12.34	11.71
Bloomberg Commodities	25.55	49.25	9.00	-0.70
Bloomberg Agg US Bond	-5.93	-4.15	2.14	2.24
Bloomberg Agg US Interim	-4.69	-4.38	1.67	1.81
Fidelity Money Market	0.00	0.01	0.54	0.85