ST. JOHN & ASSOCIATES
INTEGRATED FINANCIAL SERVICES

2022 3rd Quarter Financial & Investment Management General Commentary

It continues to be a challenging year with most asset classes experiencing negative returns year-to-date. The broader world equity market (MSCI World) was down -25.42% for the year and the broader domestic equity market (Russell 3000) retuned -24.62%. The broad domestic bond market also had losses of -14.61% (Barclays Aggregate). Most traditional portfolios fell somewhere between these indexes, however, as a firm we have been preparing for this in relation to how we manage the assets of our client's portfolios. Periods of short-term market losses are a part of long-term investing and selling out of a portfolio is generally not an optimal solution long-term. We are happy to report, that our portfolios performed as expected and, in most cases, outperformed the traditional portfolio.

We believe there is reasonable expectation for the markets to continue to exhibit higher levels of volatility given all the uncertainty regarding, FED policy action and the path of interest rates, the conflict in Ukraine, inflation levels, variants of the virus and the prospects for slowing global growth. Any one of these factors in isolation or in combination could result in further headwinds for financial markets in the short-term. We continue to be disciplined and systematic in our investment approach, which serves as a guiding principle for effective risk management. Perspective is essential during times like these and it's important to view investment results over a longer-term time horizon.

As a Firm, we are continuing to actively monitor the investment landscape in an effort to maximize the returns of our client's 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. We are always here to be a resource for the benefit of our clients.

FINANCIAL PLANNING

The Reality of Medicare Advantage Plans

During the open enrollment period between 10/15- and 12/7-persons age 65 or older will be eligible to change coverage (with some limitations) between traditional Medicare (with or without a Medicare Supplement a drug plan) and a Medicare Advantage Plan. The Medicare Supplement is an umbrella coverage to cover deductible and co-payment otherwise not covered. For this coverage there is a monthly premium of about $200 per month per person**.**

What is the Advantage Plan?

When it's time to sign up for Medicare, one of the first and most substantial decisions you face is whether to choose Original Medicare (with or without a Medicare Supplement) or Medicare Advantage.

In 2022, 45% of Medicare beneficiaries have a Medicare Advantage plan, according to data from The Chartis Group. The decision will depend on several factors, including where you live, your current and potential health care needs and your financial situation. Both options provide coverage for your major medical needs. But your out-of-pocket costs and choices for doctors and hospitals will depend on the program you choose. There are some good resources for helping you decide, here is a good start. Let us know if you need assistance with this decision.

College Planning
College enrollment fell for the fifth straight semester in spring 2022. (See "College Enrollment Declines Deepen.") In response, many small liberal arts schools have joined forces with large universities to survive. When schools like Harvard, Yale, Duke, and Rutgers have open seats in an online class, students from partner colleges can fill the available spots. This allows smaller schools to offer more diverse courses without breaking the bank. According to EAB (Education Advisory Board) developing a new college program can cost up to $2.2M. In 2018, the Council of Independent Colleges launched an online class-sharing association. It currently has 303 college members. The proliferation of online learning has made this trend more accessible. But since lots of Ivy League courses are already available online for free, it does raise the question: How much can a small college charge students for this sort of education?

How the Inflation Reduction Act Changes Healthcare Planning
It’s been a couple of months since the Inflation Reduction Act (IRA) passed.

The IRA will impact you if you’re on Medicare. Effective in 2025, there will be a $2,000 cap on out-of-pocket costs for prescription drugs for Medicare recipients. This cost reduction not only saves you money – and will make it easier to plan for Medicare drug costs than it is today – but it broadens your health plan options under Medicare now that there is a cap on out-of-pocket costs for prescriptions. Starting in 2024, the IRA will also prevent beneficiary premiums for part D coverage from increasing by more than 6% annually. However, this doesn’t mean that every plan’s premium increases will be capped at 6% per year. Because of this, it will be crucial that Medicare enrollees in traditional Medicare, still compare their part D plans each year to ensure you choose the optimal plan for your health needs and financial goals.

The standoff between homebuyers and sellers
With low inventory, pricing is key to success. Inventory which has been falling for years, broke to all-time lows in 2020. We didn’t have a seasonal push in inventory in 2020, and things worsened in 2021. To top it all off, we started 2022 at all-time lows, forcing bidding action everywhere until mortgage rates rose. We aren’t talking about your grandfather’s mortgage rates rising; we went from **2.5%** to over **7%** in a very short period of time.

Of course, this has brought back some inventory, as demand weakness always creates inventory through accumulation. However, as we can see below, we are not back to the historical norms of **2-2.5 million** active listings, but at just **1.28million** today.

This doesn't mean homebuyers don't have something of an edge now: As inventory has increased and buying power has faded, the buyers who are available are dealing with a lot less competition as the bidding wars are ending.

Note that the current 6%-7% mortgage rates are changing behavior so that we see new listing data declining even more as sellers are calling it quits on their plan to list.

To have a balanced housing market we need active listings to rise yearly, which they typically do; 2020 was an anomaly. We shall see what the next few months bring for housing. However, as we close the books for 2022, we can agree it was a very unhealthy housing market.

What we don't want to be in 2023 is stuck with low total inventory… sellers not wanting to sell, homebuyers and sellers fighting over price, and sellers being stubborn about it. With more inventory, sellers have to be less stingy and equilibrium will begin to return to the housing market.

College Planning
[Saving for College] provides unbiased information to assist families in meeting the rising costs of education.

If you're thinking about financial aid for next school year then it's time to fill out your application. October 1st started the FAFSA application process for the 2023-2024 school year. Learn everything you need to know about financial aid - including how loans work, the application process, and how your savings could impact your eligibility outside of a 529 plan before applying by reviewing their Ultimate Guide to Financial Aid.

Social Security announces 8.7% COLA for 2023

The CPI-W, which is the index used to calculate the COLA (cost of living adjustment), rose by 8.5% over the last 12 months to an index level of 291.854 (1982–84=100). In calculating the COLA, SSA takes the average of the indexes for July, August, and September (291.901), subtracts the average for the same period last year (268.421) and calculates the percentage gain, which was 8.747%.

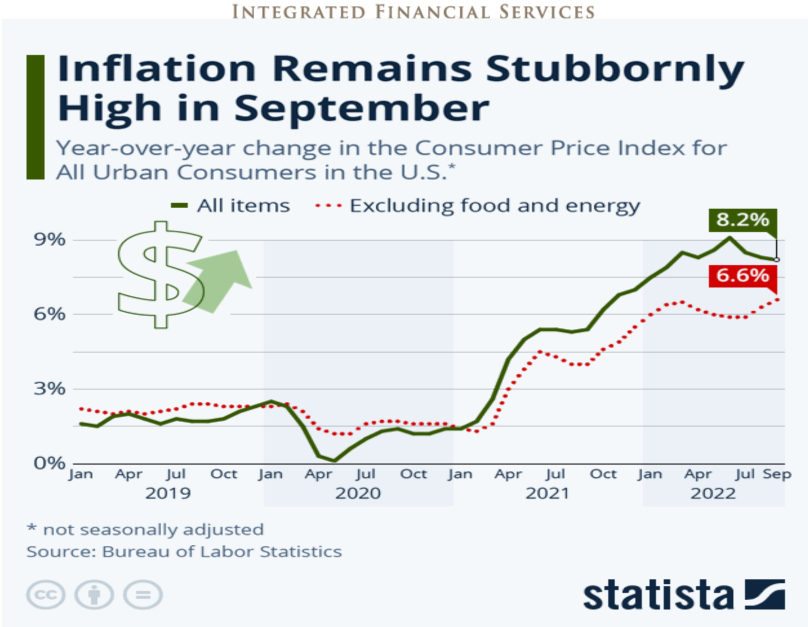
People age 62 and older who have not started benefits yet will also get the COLA, but it will not show up directly in their statements. Rather, they can rest assured that in the year they turned 62 their PIA (primary insurance amount) was calculated using the indexing factors and bend points in effect for that year and that every year thereafter the PIA will be raised by the COLA. When they claim their benefit it will reflect the original PIA, plus each year's COLA, plus delayed credits if claiming after FRA, plus adjustments for additional earnings, if applicable.

The COLA notice going out to beneficiaries enrolled in Medicare will also provide Medicare premium information for 2023. We already know the Part B base premium will be $164.90, a *decrease* of $5.20 from the current $170.10. The income-related monthly adjustment amount (IRMAA) will range from $65.90 to $395.60, also a slight decrease from 2022 levels, while the first income tiers rise to $97,000 (from $91,000) for individuals and to $194,000 (from $182,000) for couples.

The Social Security wage base - that is, the maximum amount of wages subject to Social Security taxes will rise to $160,200, nearly 9% higher than the current $147,000. The retirement earnings test exempt amounts rise to $21,240 per year, or $1,770 per month, up from the current $19,560/year or $1,630/month. The FRA year amounts rise to $56,520/year or $4,710/month, up from $51,960/year or $4,330/month.

Inflation Remains Stubbornly High

Despite the Fed's historically aggressive rate hikes and another 5% drop in gasoline prices, inflation remained stubbornly high in September, as prices rose 0.4% compared to August and 8.2% compared to September 2021.



Tax Planning
Looking to buy an electric vehicle (EV)? There's good and bad news if you're in the market for an electric or plug-in hybrid electric vehicle.

The good news is that the newly enacted Inflation Reduction Act includes a wholly revamped tax credit for electric vehicles that starts in 2023 and continues through 2032.

The bad news is that the credit, now called the clean vehicle credit, comes with many new restrictions.

The maximum $7,500 credit for fully electric cars or plug-in hybrid electric vehicles that applies to both business and non-business vehicles remains in place through December 31, 2022, subject to one significant change that began on August 17th: electric vehicles purchased and placed in service after August 16, 2022, qualify for the tax credit only if they are assembled in North America. Beginning in 2023, to qualify for the credit:

- you will need an adjusted gross income of $300,000 or less for marrieds filing jointly or $150,000 or less for singles; and
- you will need to buy an electric vehicle with a manufacturer's suggested retail price below $80,000 for vans, SUVs, and pickup trucks, or $55,000 for other vehicles.

The North American assembly requirement cuts the supply, leaving only 23 qualifying electric models: click here for the list.

But that's not all. The 2023 and later credit includes new domestic assembly as mentioned above and battery sourcing requirements - electric vehicles purchased and placed in service after August 16, 2022, qualify for the tax credit only if they are assembled in North America.

The new law reduces or eliminates the credit when the vehicle fails the battery sourcing requirements. Currently, no electric vehicle will qualify for the full $7,500 credit. Manufacturers are working feverishly to change this, but it could take a few years.

The new credit is not all bad—it eliminates the 200,000 electric vehicles per manufacturer cap. Thus, popular electric vehicles manufactured by GM, Toyota, and Tesla can qualify for the new credit if they meet the price cap and other requirements.

Starting in 2024, you can qualify for a credit of up to $4,000 when purchasing a used electric vehicle from a dealer (not an individual). But income caps also will apply to this credit.

Also, starting in 2024, you'll be able to transfer your credit to the dealer in return for a cash rebate or price reduction. This way, you can benefit from the credit immediately rather than waiting until you file your tax return.

If you are locked out of the new credit because your income is too high or you wish to purchase a too-expensive electric vehicle, consider buying a qualifying electric vehicle (assembled in North America) on or before December 31, 2022.

If you buy an electric vehicle for business use in 2023, you have a second option: the commercial clean vehicle credit.

Tax filers can keep more money in 2023 as IRS shifts brackets
The IRS on Tuesday October 18th announced rule adjustments to account for inflation for the 2023 tax year, including shifts for tax brackets and the standard deduction.

The IRS releases inflation adjustments annually, but this year's announcement comes amid heightened economic concerns about high inflation and a potential recession.

The adjustments apply to the 2023 tax year, for which tax returns will generally be filed in 2024. They're aimed at warding off "bracket creep", when salary increases aimed at accounting for a higher cost of living end up pushing taxpayers into higher tax brackets.

The standard deduction will increase by $1,800 for married couples filing jointly, by $1,400 for heads of households and by $900 for single taxpayers and married taxpayers filing separately.

The income thresholds for tax brackets are among the provision changes "of greatest interest to most taxpayers," according to the IRS. The tax rates themselves are unchanged from last year, ranging from 10 percent to 37 percent, but the income cutoffs have shifted.

The top rate of 37 percent applies to individual single taxpayers with income over $578,125 and married couples filing jointly with income over $693,750 — figures up from last year's $539,900 and $647,850, respectively.

The lowest rate of 10 percent applies to single taxpayers with income $11,000 or less and married couples filing jointly with income $22,000 or less — up from last year's $10,275 and $20,550, respectively.

A single taxpayer making $90,000 in the 2022 tax year would face a top tax rate of 24 percent, while the same income in the 2023 year will face a top rate of 22 percent.
Other announced IRS changes also affect the earned income tax credit, estate taxes and flexible spending accounts, among other provisions.

Last Chance Financial Planning Checklist
Each year in October we make available to our full-service financial planning clients the above referenced tool. It's a simple checklist that covers only those areas that need attention at year end – taxes, retirement savings, investments, insurance, and medical. It might take you five minutes to complete, tops. To receive your copy email btotri@stjohnfinancial.com.

FINANCIAL MARKETS

The Economy

Inflation continues to be the driving force of the economy as well as the market. Inflation will lead to reductions in earnings and job losses and is the result of rising interest rates. While incomes for those working will rise, they are not rising at the same levels as inflation and increased costs for goods and services are forcing an increase in spending, but a reduction in the number of items being purchased. Increased wages with a decrease in sales leads to lower earnings and lower earnings with increased wages will eventually spawn a decrease in the workforce.

Rising interest rates will put a stain on corporations looking for cash to build new factories or start new product lines. On a consumer level, it will eat into anything interest sensitive such a home or auto purchases. The largest drag may come from inflation leading to the largest increase of credit card use in decades. As consumers are forced to carry more spending on credit cards, rising interest rates will push up card rates and account balances.

This debt issue also plays through to the federal government. As interest rates rise, so does the debt servicing cost for the U.S.

The Fed continues to employ an aggressive policy stance in hiking interest rates in order to curve the effects of inflation. These actions have been a meaningful contributor to the volatility and uncertainty we continue to experience in financial markets. Thus far, FED policy action has not resulted in bringing inflation down towards their 2.0% target (a target we are calling into question). In September, the Consumer Price Index (a measurement of inflation), increased 0.4%, seasonally adjusted month-over-month and rose 8.2% over last 12-month period. Higher costs in the form of energy, natural gas, food and shelter filters down with an impact on all parts of the economy and how consumers limit discretionary spending. While interest rate hikes are an important part of combating inflation, the FED will be challenged to navigate a soft landing and avoid inducing a recession.

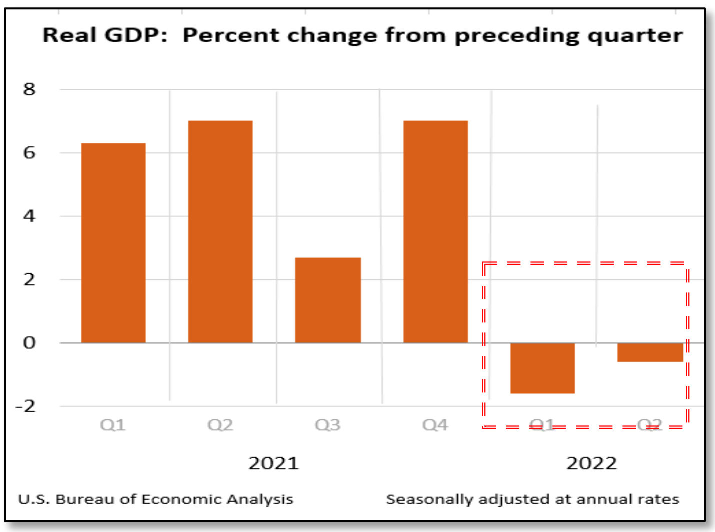
Several indicators such as the Manufacturing PMI are showing signs of slowing. The Euro Zone and Emerging Market regions have moved into contraction territory based on purchasing manager's indices while the U.S. experienced a move higher in September, but well below the highs for the year. The Leading Economic Indicator Index moved into negative territory on a year-over-year basis reflecting an elevated risk of recession.

Inverted yield still pointing to a recession

During our 2nd quarter commentary, we analyzed and discussed the implications of an inverted yield curve (*this has historically been a precursor and indicator of an economic recession).* The yield curve continues to remain inverted with the 2-year Treasury at 4.49% and the 10-year Treasury yielding 4.02% (a negative spread of -0.47%) as of October 14, 2022. This historical recessionary indicator is proving to be supported by recent economic data.

Health of the economy

Real gross domestic product (GDP) is one of the primary measurements of the health and growth of the U.S. economy. GDP decreased at an annual rate of -0.6% in the second quarter of 2022, following a decrease of -1.6% in the first quarter of 2022. The decrease in real GDP reflected decreases in private inventory investment, residential fixed investment, federal government spending, and state and local government spending that was partial offset by increases in exports and consumer spending. However, it's important to recognize that we are entering a period of more challenging year-over-year comparisons with 2021 being a year of economic recovery after a U.S. economic shot down. The chart below highlights and illustrates the GDP trends over the last six quarters.



The rising interest rate environment has been a contributor to the draw-down across asset classes. While equity valuations have been above historical averages for several years, the ultra-low interest rates provided support to an expansion of those multiples. However, now that interest rates have moved considerably higher, we have experienced a meaningful correction of equity valuations resulting in steep equity losses. To explain further, the value of a stock today is its future earnings or shareholder dividends discounted back to the present. Therefore, the change in the price-to-earnings ratio is a function of changes in the interest rate. Rising rates also have a negative impact on the pricing and performance of bonds (rates up, bond prices down). As we previously indicated, bond prices and performance will continue to be challenged with a backdrop of high inflation and rising interest rates.

During 2022 what we've seen and experienced is a significant breakdown in cross-asset class correlations. Stated more simply, both equities and bonds have realized significant drawdowns and losses during the year. This has significantly diminished the benefits of diversification within the construct of an investment portfolio. Consistent with prior expectations, we continue to believe that market volatility will be elevated given all the global uncertainty. Today the VIX (a measure of volatility) currently measures at 31.02, which well above historical norms.

This year has been a struggle for those believing diversification limits risk and in turn reduces losses. Traditionally such segments as stocks and bonds have moved invertedly to each other offering somewhat of a safe haven as one is down the expectation is the other is up. In this case, not only were both segments down, but both have been down this year more than 10%. It's been more than 45 years (1976) since the S&P 500 and the U.S. Aggregate Bond Index were both down in excess of 10%. The only other time both indexes dropped for the year was in 1994, when the bond index and S&P declined -2.9% and -1.5% respectively.

This does not imply that diversification does not work, only that there were very few places to hide in this recent downturn which is a short-term phenomenon. We still believe diversification works long term. For this year, losses for a traditional portfolio fell between -25.42% for broad equities and -14.61% of broad fixed income depending on the level of risk. We are happy to report, that our portfolios performed as expected and, in most cases, outperformed a traditional portfolio.

Asset Class Performance / Investment Markets

As of September 30, 2022 most asset classes have experienced negative returns. As we previously indicated, there is a reasonable expectation that we may be entering a changing market regime marked by lower returns. U.S. domestic equities continue to outperform international equities. For the year, the S&P 500 is down -23.87% while developed international (MSCI EAFA) and emerging markets (MSCI EM) were down -27.09% and -27.16%, respectively. As anticipated, value continues to outperform growth on the year with the Russell 3000 value broad equity market index total return at -17.97% compared to the Russell 3000 growth at -30.57%. Value tends to exhibit more defensive characteristics and generally outperforms during times of financial distress. We continue to believe that exposure to value will serve a role within the construct of a portfolio for the purposes of managing risk as well as being an instrument to generate cash through dividends.

Given inflation and FED policy action, fixed income, as an asset class, has provided very little benefit of diversification. What we are observing and experiencing is equity like volatility out of the bond market which is uncharacteristic. The Bloomberg US Aggregate Bond index, Bloomberg US Corporate High Yield and Bloomberg US Long Treasury were down -14.61%, -14.74% and -28.84% respectively on the year. U.S. Treasury yields have continued to move higher based on an aggressive FED policy stance. As of September 30, 2022, yields on the 10-year Treasury moved 85 basis points higher to 3.83%. To put the magnitude of these changes in yield further in perspective, on a year-over-year basis yields on the 10-year have gone from 1.52% to 3.83% (231 basis points higher over a 12-month period). Given the backdrop, we do believe that fixed income will continue to experience challenges and headwinds until the FED has achieved a net neutral rate with policy action. Except for commodities, which experienced losses during the quarter, there has been very few places to seek refuge in the market.

We continue to emphasize the importance of adopting a long-term perspective in evaluating portfolio performance. As a Firm, we continue to remain disciplined in our investment approach by actively managing the risk through market cycles. This systematic approach tends to result in more optimal outcomes in performance over the long-term. The table below highlights performance across various asset and sub-asset classes.

Asset Class	Sub Asset Class	YTD	1-Year	3-Year	5-Year
Fixed Income	Bloomberg US TIPS	-13.61%	-11.57%	0.79%	1.95%
Fixed Income	Bloomberg US Aggregate Bonds	-14.61%	-14.60%	-3.26%	-0.27%
Fixed Income	Bloomberg Corporate High Yield	-14.74%	-14.14%	-0.45%	1.57%
Equity	Bloomberg US Long Dur. Treasuries	-28.84%	-26.65%	-8.51%	-1.62%
Equity	S&P 500	-23.87%	-15.47%	8.16%	9.24%
Equity	Russell 2000	-23.40%	-25.20%	4.20%	5.20%
Equity	MSCI International Developed	-27.09%	-25.13%	-1.83%	-0.84%
Equity	MSCI Emerging Markets	-27.16%	-28.11%	-2.07%	-1.81%
Commodities	Bloomberg Commodities	13.57%	11.80%	13.45%	6.96%

Source: Morningstar September 30, 2022

This highlights the importance of both active portfolio management, diversification, and alternative assets as a differentiated return driver. As a Firm, we constantly source, review and implement strategies across various asset classes in an effort to enhance diversification and return optimization.

Alternative Assets

As we previously mentioned, we are constantly sourcing and underwriting investment strategies that we believe will positively contribute to the performance of a portfolio. We currently have a couple of new alternative investments that we are trying to make available on Fidelity's platform that offer attractive returns that enhance diversification with low correlation to broader financial markets. The investment strategy seeks to deliver risk-efficient returns by originating, underwriting, and executing upon a well-diversified portfolio of short-term, senior secured loans fully collateralized by high-quality income producing commercial real estate assets.

Overall, the investment strategy focuses on providing investors with the following benefits:

- High current income, yield, and solid risk-adjusted returns for investors seeking safety, security and reliable cash flows;
- Risk management with a focus on capital preservation and down-side protection;
- Alternative returns that are diversifying and uncorrelated to broader financial markets;
- Senior position loans provide investment safety and security across market cycles;

We have completed full due diligence on the manager and a copy of the investment write-up is available upon request. We will be reaching out to clients to further discuss this opportunity as a part of a strategic asset allocation strategy once it is available.

Investment Markets

In a rather bleak global backdrop where it seems almost everyone "knows" things are going to get worse, many are asking why should they invest or stay invested now? In our view, the answer is that staying invested in a diversified strategy, along with periodically rebalancing, provides the best chances for success and helps reduce the odds of behavioral finance mistakes.

Every bear market feels awful and scary, but all of them eventually come to an end with a new cycle beginning.

Should I be worried about a recession?

Let's start by first pointing out that there will always be a recession in the future; it's a natural part of the market cycle.

Knowing if we are entering one or already in one is only certain in hindsight. The reality is that by the time we know we are in a recession, the stock market has typically already priced in a large part of the move, and you can usually expect it to do the same on the way up. This means the market almost always starts rebounding well before the skies clear, so timing the market is a fool's errand. You may get lucky and sell stock before a larger down move, but you now take the risk of not getting back in, a risk that is very real in times of extreme market volatility. Even if you do get back in on time, you probably only end up saving yourself a few percent, which is probably not worth the risk you are taking and the stress of making two very hard calls.

Bear markets are often accompanied by recessions, but not always, since the stock market and the economy (although related) are different. The market is forward looking and tends to overshoot both to the upside and the downside.

It's fair to assume the odds of a recession are higher during a bear market because they often coincide, but that assumption won't give you any insight that will help you time the market.

So, it's best to focus on what matters most and what gives you the best chance of success rather than worrying about what you can't control. Focus on your long-term goals and what is needed to get you there, though that can be easier said than done.

As it relates to your portfolio, this means making sure you are in the appropriate allocation that aligns with your time horizon, risk tolerance, and financial goals so that you can stick with your long-term plan. That way, you can ride out volatility and not react emotionally during extreme events, which tends to lead to poor financial outcomes.

Cash needs in a falling market

We have been talking with clients over the past couple of years of the importance of having emergency funds. The largest disconnect in the market and the economy is meeting cash needs with rising inflation and lower returns. While inflation rises, it only makes sense that cash needs will go up. This happens at the same time that the portfolio is not generating high returns to make up for the increased cash needs.

This is a learning lesson that some of the gains made during a bull market should not all be spent, but held to use during times of bear markets.

Correction vs. bear market vs. recession

A bear market is a decline of 20% or more in stock prices usually over a sustained period of time, typically two months or more, but there is no hard number.

A correction, on the other hand, is a shorter-term market downturn, usually over a timeframe of less than two months. It is a drop of less than 20% in major stock indices.

Although U.S. stocks are in bear market territory, this is not the same as an economic recession. To clarify, an economic recession is typically defined as two consecutive quarters of declines in quarterly real (inflation adjusted) gross domestic product (GDP). Technically we are in a recession based on the GDP alone, but the argument of high employment has given controversy as to if we are actually in a recession yet. As we discussed above, in times of high inflation and low earnings, employment issues will eventually be seen.

Portfolio Management

We have written in our newsletters this year that we need to be cautious and that we need to set our sights realistically. Building dividend equities and alternative investments has been our recommendation. It has fared well. Most of our portfolios are down much less than most traditional portfolios. Even from what was once considered the safest portfolio, our portfolios have outperformed bonds with the 10-Year US Treasury down -16.9%. Our shift towards dividend portfolios also outperformed the broader equity market as the growth side of the market was the weakest sector.

For the year, from a return standpoint, international stocks struggled versus the US domestic market. The recent action of the Central Bank in the UK has caused a recent run up in prices, and this is good. That said, we wonder for how long will this last. There was a dramatic reaction two days after the reduction but the long-term is still unknown. Will the UK Central Bank need to take further action? While no one knows, we doubt their action will be enough. The domestic managers have done better against their benchmarks, but we hoped for lower losses. The losses came primarily in the months of June and September.

We think the overall market has a further decline coming, and our hope is that we likely have seen the majority of losses for our portfolios. We would not expect dramatic further declines in our portfolios as the market goes through its declines. We think, though, there is more trouble ahead for the general markets. We think 6-12 months from now, the markets will be lower, how much lower is a flat-out guess. What we would say if history is a guide, and we think it is, sometime in the next 12-18 months global markets will bottom out. If this turns out to be correct, we will likely go through capitulation which is when almost all investor's faith in the markets will be dramatically diminished, if not lost. This is when we will be excited to become fully invested again. Some analysts are suggesting the S&P 500 will bottom out at 3,000, a far cry from the 4,800 it started at this year. If that is right, it would be down just under 40% from the start of this year. There will be real bargains at that time, and while we cannot predict them today, we are talking to more managers of all disciplines to make sure we understand where the opportunities reside. In addition, the way we have positioned our portfolios, we think from here will mean they will decline less than in this first part of the decline. Dividend strategies tend to get more defensive in the second half of bear markets because their dividend yields are higher. So, we like our position. If history repeats itself there will be some dislocation in one or more areas of the markets that make no sense, an exaggeration on the downside. We are always looking for these opportunities and while we have no idea where they might come, we are keeping our eyes and ears open for opportunities.

Reality of markets

We obviously like sunny days better than rainy days, but then again so does everyone. We also know that we get both and that we don’t have greener grass or flowers without both. Right now it feels like the markets are raining on our parade. Don’t get discouraged as bear markets as well as recessions are part of a healthy financial market and economy.

We have positioned the risk level of your portfolios in such a way that you can withstand whatever decline we encounter. This is at best an inexact science, and is why we discuss risk at every meeting. These are times to ensure we have this right. During good times, clients want to tell us about their trips or what their children or grandchildren are doing, but these are not good times. The questions will now be how will you be able to pay for a trip, or should you even take the trip?

Understand that this downturn will at some point end. It is always a good idea to reassess your financial needs and goals during downturns as doing this only when the market is going up may skew expectations and abilities. For those who have done a financial plan, the plan was tested for good and bad markets. For those without a plan, understand that spending goals cannot be calculated based off bull markets only.

The Bottoms Line

Inflation is the root of all the problems relating to the market right now. Corporate earnings, wages, consumer spending, product pricing and transportation costs are all components of market drivers and inflation sensitivity.

At this point, we are at the mercy of the FED’s decisions related to interest rates. In simplest terms, the FED raising interest rates to eventually stem inflation. Should the FED raise rates to far or too fast it could stall the economy driving it into a deeper recession. It is difficult to get it exactly right and the chances of a soft landing get worse with every increase.

The FED may have to decide at some point which is worse, more inflation or a weaker economy. Unfortunately, with the late thinking that inflation was “transitory,” they are forced to be overly aggressive which creates less room for error.

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 over the long-term. 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.

	3rd Qtr. 2022	**1 Year Average**	**5 Year Average Return**	**10 Year Average**
S&P 500 Growth	-3.86	-21.11	11.42	13.19
S&P 500 Value	-5.82	-9.63	6.17	9.63
S&P Midcap 400 Growth	-0.74	-19.52	5.69	9.76
S&P Midcap 400 Value	-4.01	-10.88	5.54	10.00
S&P SmallCap 600 Growth	-3.38	-21.17	5.49	10.53
S&P SmallCap 600 Value	-6.78	-16.41	3.99	9.51
DJIA	-6.17	-13.40	7.42	10.45
S&P 500	-4.88	-15.47	9.24	11.70
S&P 500 Equal Weighted	-4.79	-13.53	8.02	11.
S&P Mid-Cap 400	-2.46	-15.25	5.82	10.04
S&P Small Cap 600	-5.20	-18.83	4.84	10.09
Russell 1000	-4.61	-17.22	9.00	11.60
Russell 2000	-2.19	-23.50	3.55	8.55
Russell 3000	-4.46	-17.63	8.62	11.39
MSCI EAFE	-9.36	-25.13	-0.84	3.67
MSCI EAFE Large Growth	-8.12	-28.60	1.75	5.06
MSCI EAFE Large Value	-10.02	-18.63	-2.57	2.14
MSCI Emerging Mkt	-11.57	-28.11	-1.81	1.05
MSCI World	-6.19	-19.63	5.30	8.11
MSCI US IMI Gold	-25.95	-18.41	4.62	-1.84
DJ Real Estate	-10.41	-17.90	3.66	6.40
Bloomberg Commodities	-4.11	11.80	6.96	-2.14
Bloomberg Agg US Bond	-4.75	-14.60	-0.27	0.89
Bloomberg Agg US Interim	-3.84	-11.49	-0.05	0.84
Fidelity Money Market	0.48	0.61	1.00	0.60