

Core Principles

- We are long-term, goal-focused, plan-driven equity investors. We believe that lifetime investment success comes from ***acting continuously on our plan***. Likewise, we believe substandard returns, and even lifetime investment failure, come from ***reacting to current events***.
- The unforeseen and indeed unforeseeable economic, market, political and geopolitical chaos of the three years since the onset of the pandemic demonstrates conclusively that ***the economy can never be consistently forecast nor the market consistently timed***.
- Therefore we believe that the most reliable way to capture the full return of equities is to ride out their frequent but historically always temporary declines.
- These will continue to be the bedrock convictions that inform our investment policy, as we pursue your most important financial goals together.
- When we select investments on your behalf, we are not speculating. We are buying a large number of well-diversified, high-quality, profitable companies with strong balance sheets & durable competitive advantages.

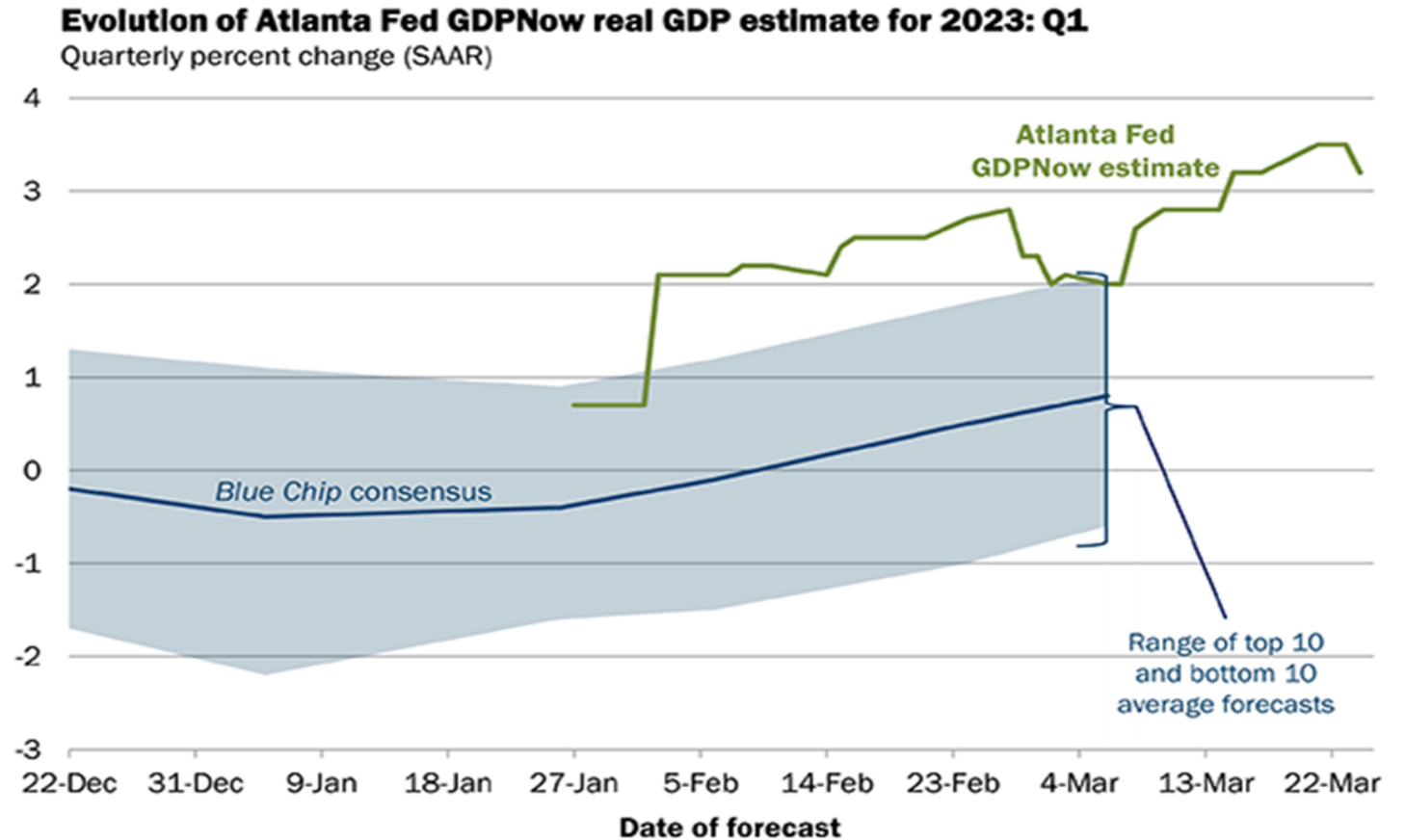
Stock Market – Gave Back 2021 Return

Interactive Chart SPY



The Fed – “NowCasting” Strong GDP Growth

The next GDPNow update is **Friday, March 31**. Please see the “Release Dates” tab below for a list of upcoming releases.



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

2023 – Investment Outlook

YTD Day 26 – Returns seem “baked in the cake”

Daily

	(a)		(b)		(c)= (b)/(a)
	N=	YTD	FY % gain	FY >20% N=	% of years
All years ex- >5% thru 1 st week Feb	56	-0.2%	7%	8	14%
>5% thru 1 st week Feb	17	7.7%	26%	12	71%

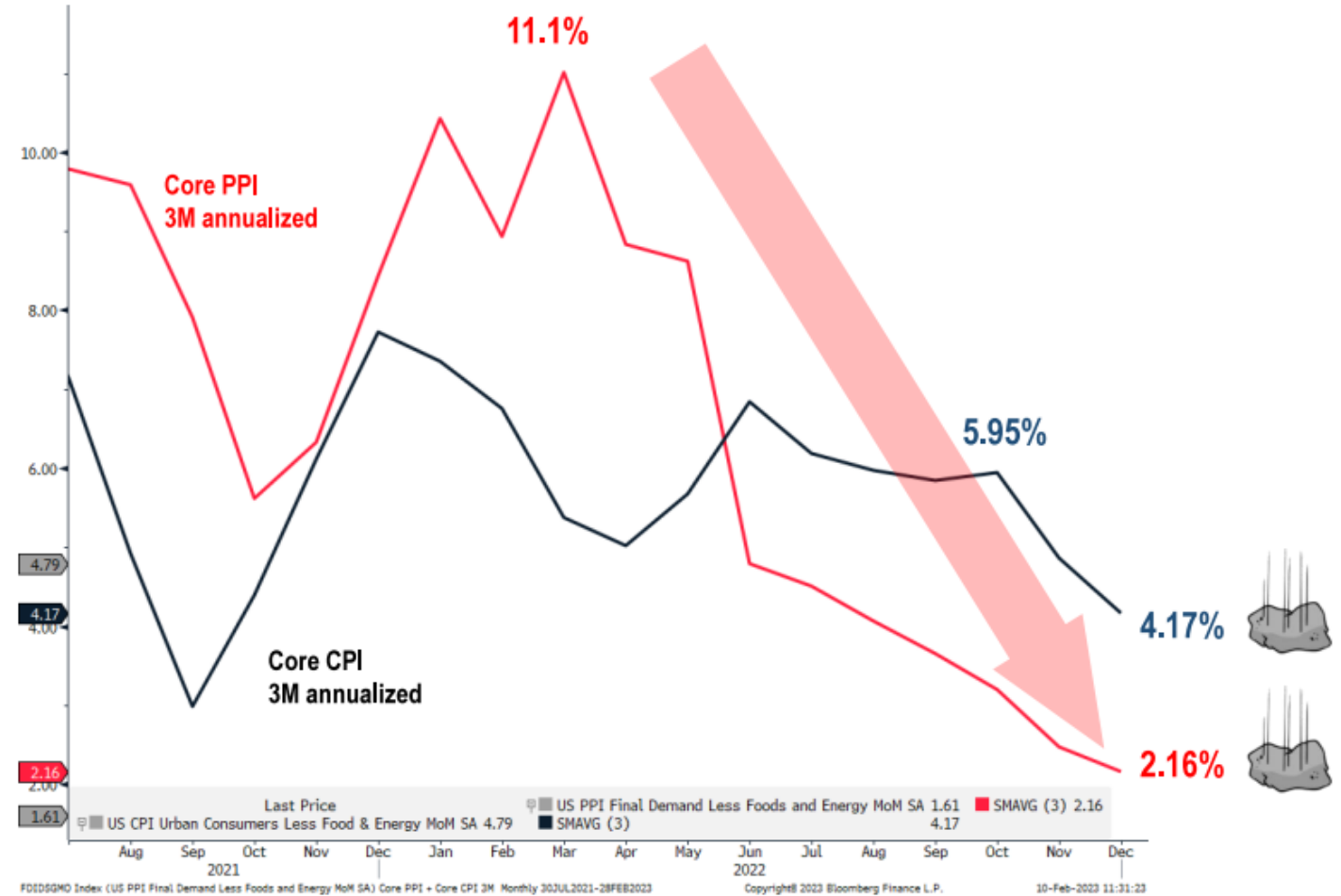
Source: Fundstrat, Bloomberg

**When day 26 >5%,
71% of time, FY >20%**

2023 –
Inflation
Weakening
Rapidly

INFLATION: Core CPI/PPI dropping sharply...

Core CPI/PPI 3M % Change annualized
Past 12 months

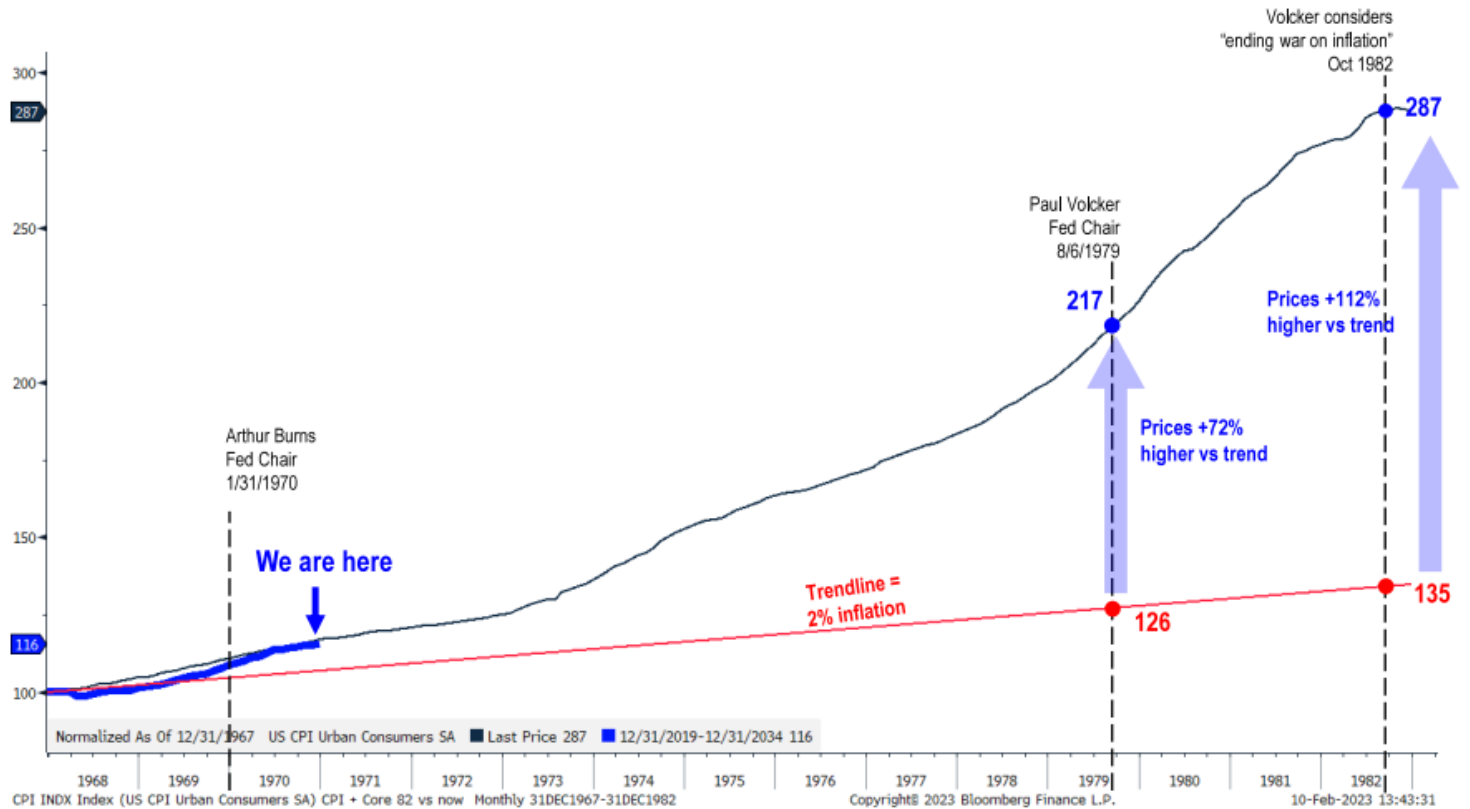


2023 – Not
the Same as
Volcker
Inflation

INFLATION: Less “wood to chop” for Powell vs Volcker

Figure: Powell has far less “wood to chop”

CPI + Core Index Levels. 100 = 12/31/2019 and 100 = 12/31/1967

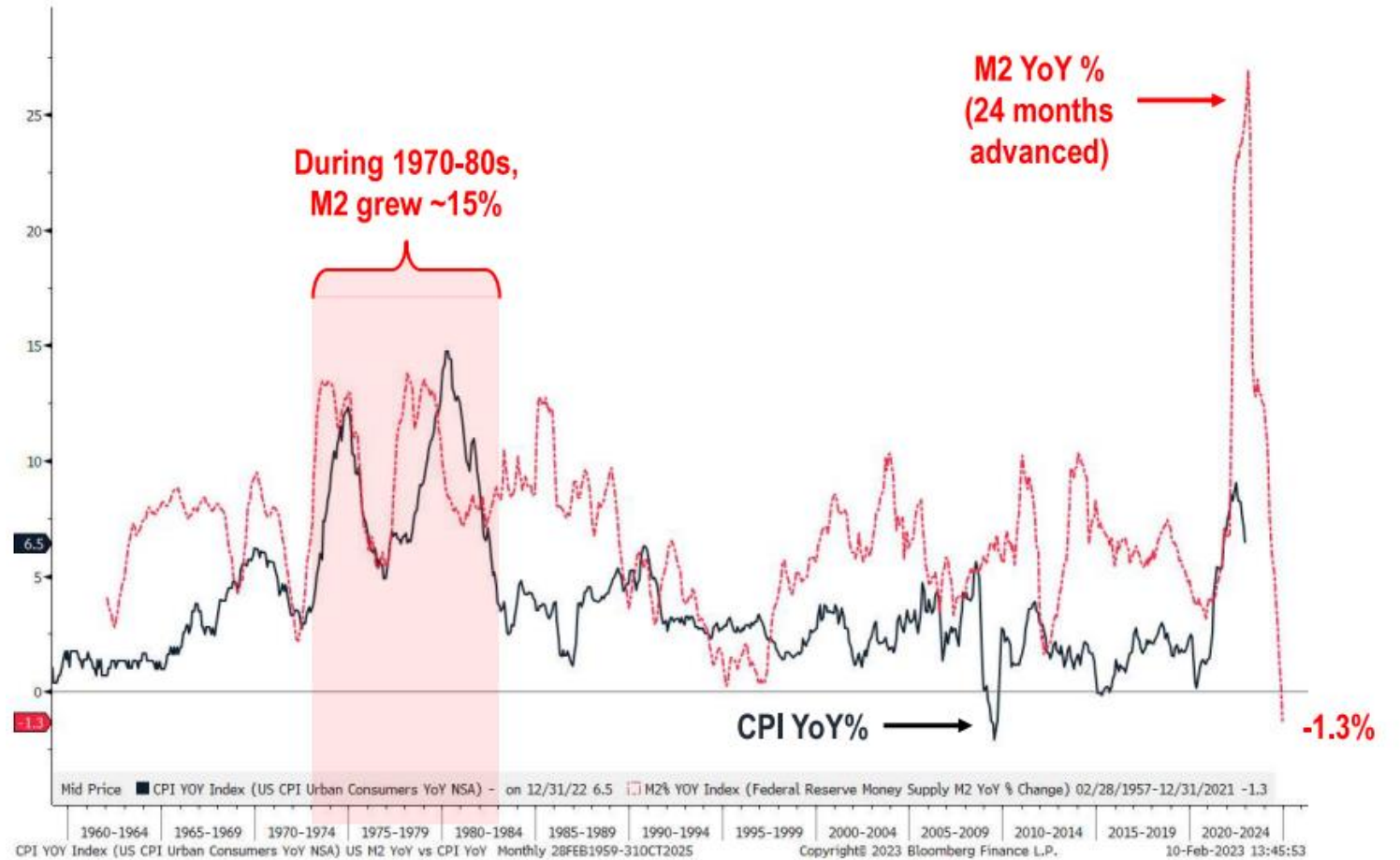


Source: Fundstrat, Bloomberg, BLS

M2: Set to turn negative YoY in November = falling inflation

Figure: M2 vs CPI

M2 YoY %chg. CPI YoY %chg. M2 is advanced 24 months



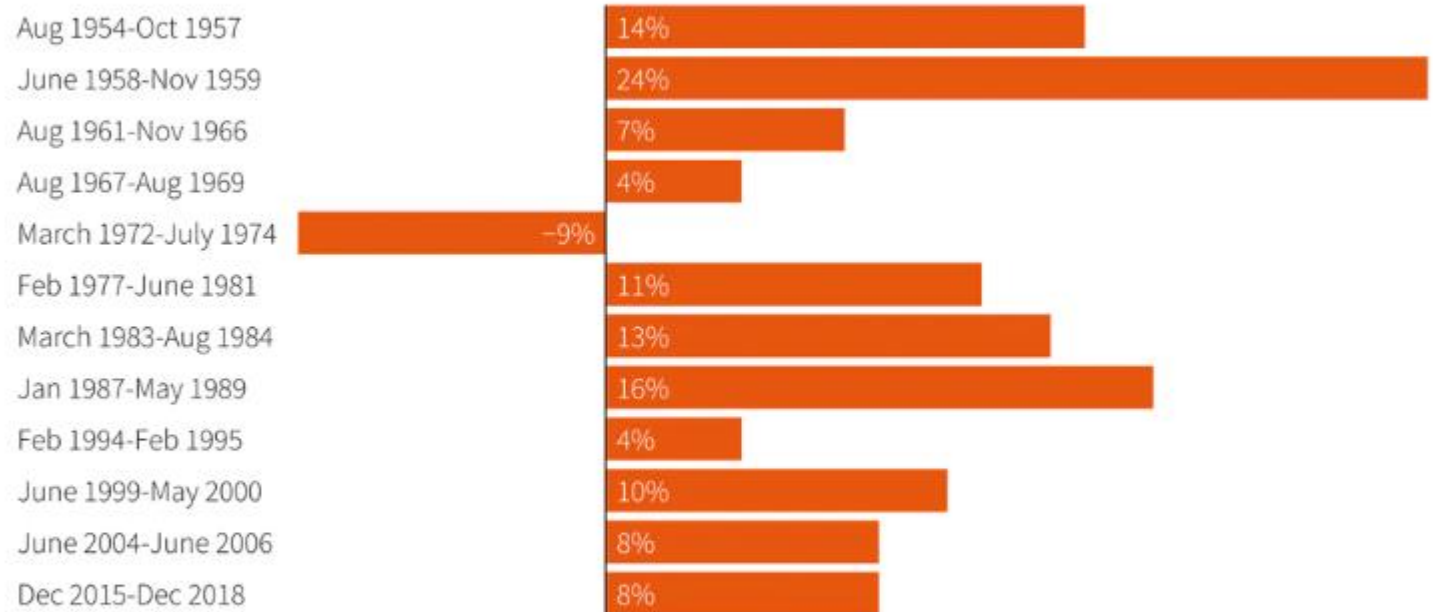
Source: Fundstrat, Federal Reserve

2023 – Money Supply is Declining (Good for Inflation Outlook)

2023 – Inflation or Not – Stocks Rise During Fed Hiking Cycles

U.S. stock market during rate hike cycles

S&P 500 has risen at an average annualized rate of 9.4% during 12 rate hike cycles



Note: Data is annualized total return

Source: Truist Advisory Services

Reuters Graphics

Bank Weakness – Doing the Fed’s “Tightening” Work

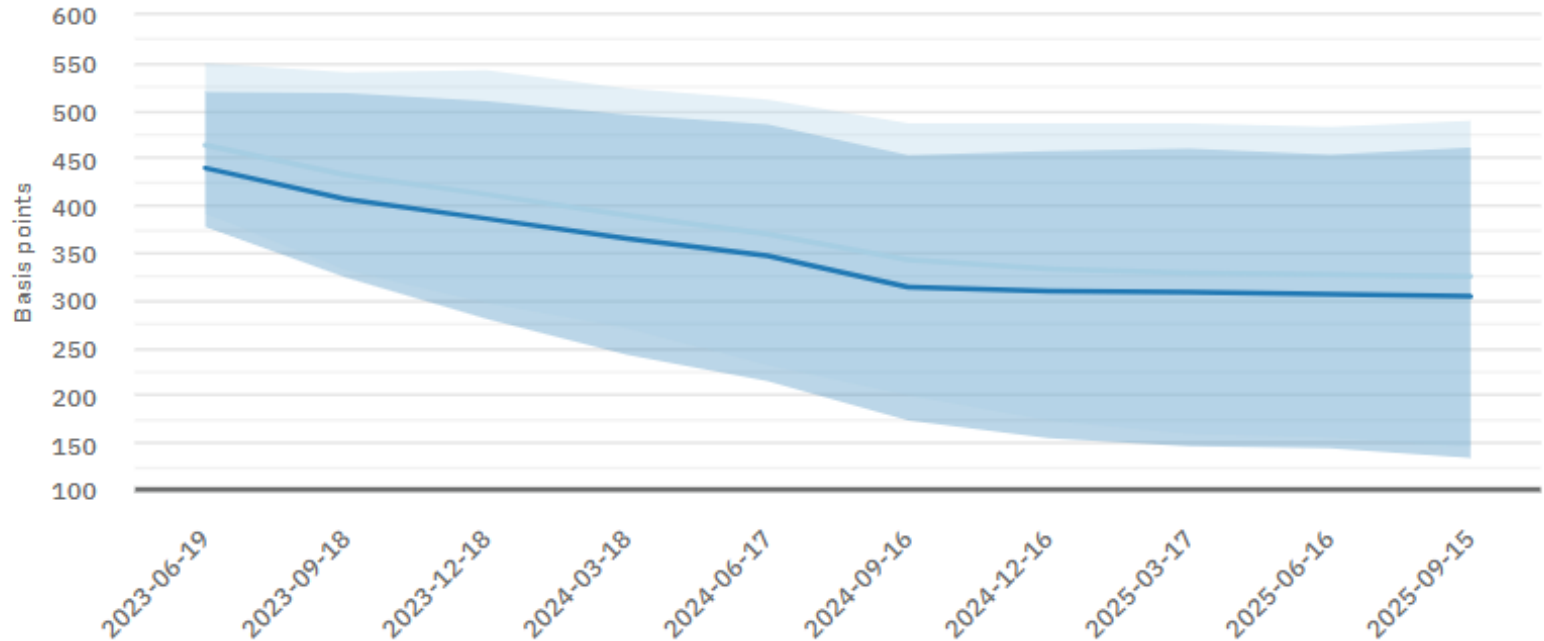
KBW REGIONAL BANKING INX		KRX	96.09	-19.64%
All Members				
1) PACWEST BANCORP	PACW	UW	13.05	-52.35%
2) BANKUNITED INC	BKU	UN	23.97	-37.48%
3) BANK OF HAWAII CORP	BOH	UN	51.09	-33.44%
4) NEW YORK COMMUNITY BANCORP	NYCB	UN	6.47	-32.46%
5) COLUMBIA BANKING SYSTEM INC	COLB	UW	21.53	-32.10%
6) PINNACLE FINANCIAL PARTNERS	PNFP	UW	55.18	-30.82%
7) UMB FINANCIAL CORP	UMBF	UW	64.13	-29.67%
8) SYNOVUS FINANCIAL CORP	SNV	UN	30.74	-28.84%
9) WEBSTER FINANCIAL CORP	WBS	UN	39.64	-28.10%
10) HANCOCK WHITNEY CORP	HWC	UW	38.82	-25.53%
11) PACIFIC PREMIER BANCORP INC	PPBI	UW	25.31	-24.99%
12) POPULAR INC	BPOP	UW	53.42	-24.78%
13) AMERIS BANCORP	ABCB	UW	36.74	-24.22%
14) WSFS FINANCIAL CORP	WSFS	UW	39.56	-22.00%
15) FIRST HAWAIIAN INC	FHB	UW	21.17	-21.88%
16) VALLEY NATIONAL BANCORP	VLY	UW	9.64	-21.88%
17) CADENCE BANK	CADE	UN	21.54	-21.81%
18) EASTERN BANKSHARES INC	EBC	UW	12.40	-21.77%
19) HOPE BANCORP INC	HOPE	UW	10.54	-20.27%
20) BANK OZK	OZK	UW	37.60	-20.25%
21) CVB FINANCIAL CORP	CVBF	UW	19.23	-20.21%
22) WINTRUST FINANCIAL CORP	WTFC	UW	74.97	-19.09%
23) BROOKLINE BANCORP INC	BRKL	UW	10.96	-18.03%
24) PROSPERITY BANCSHARES INC	PB	UN	62.18	-17.72%
25) FIRST COMMONWEALTH FINANCIAL CORP	FCFS	UN	17.12	-17.54%

By Goldman Sachs’ math, the financial tightening that results from small banks increased lending standards, will equal 1 or 2 25 bps rate hikes

**Tightening
Cycle –
Arguably,
Over**

The Expected Future Path of the Three-Month Average Fed Funds Rate

Current target range: 450 - 475 basis points

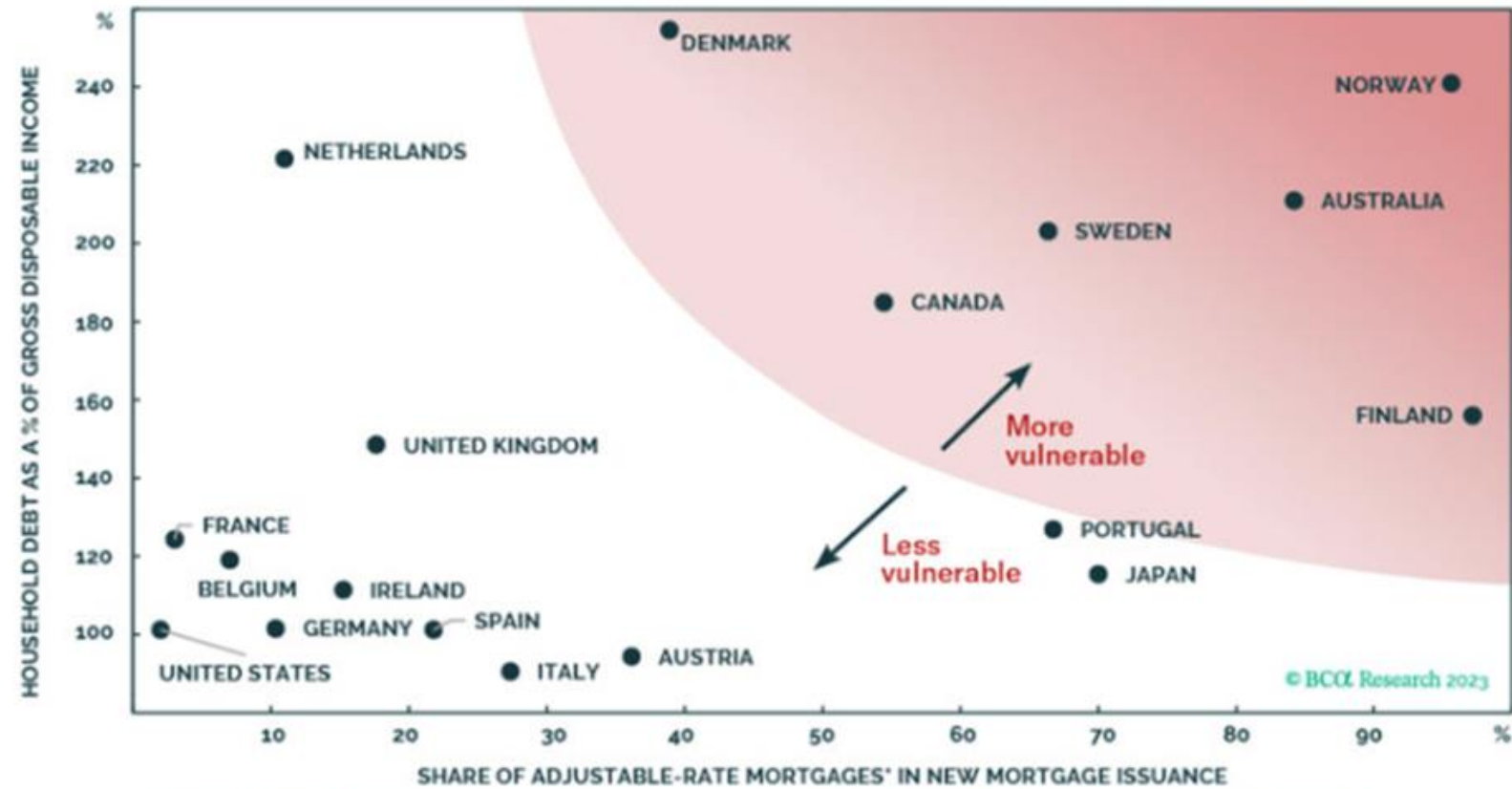


Probability of a Rate Hike or Cut by 2023-06-19

Current target range: 450 - 475 basis points

2023 – US Household Debt is Low

Widespread Use Of Variable Mortgage Rates And High Debt Burdens Make Some Housing Markets More Vulnerable To Rising Rates

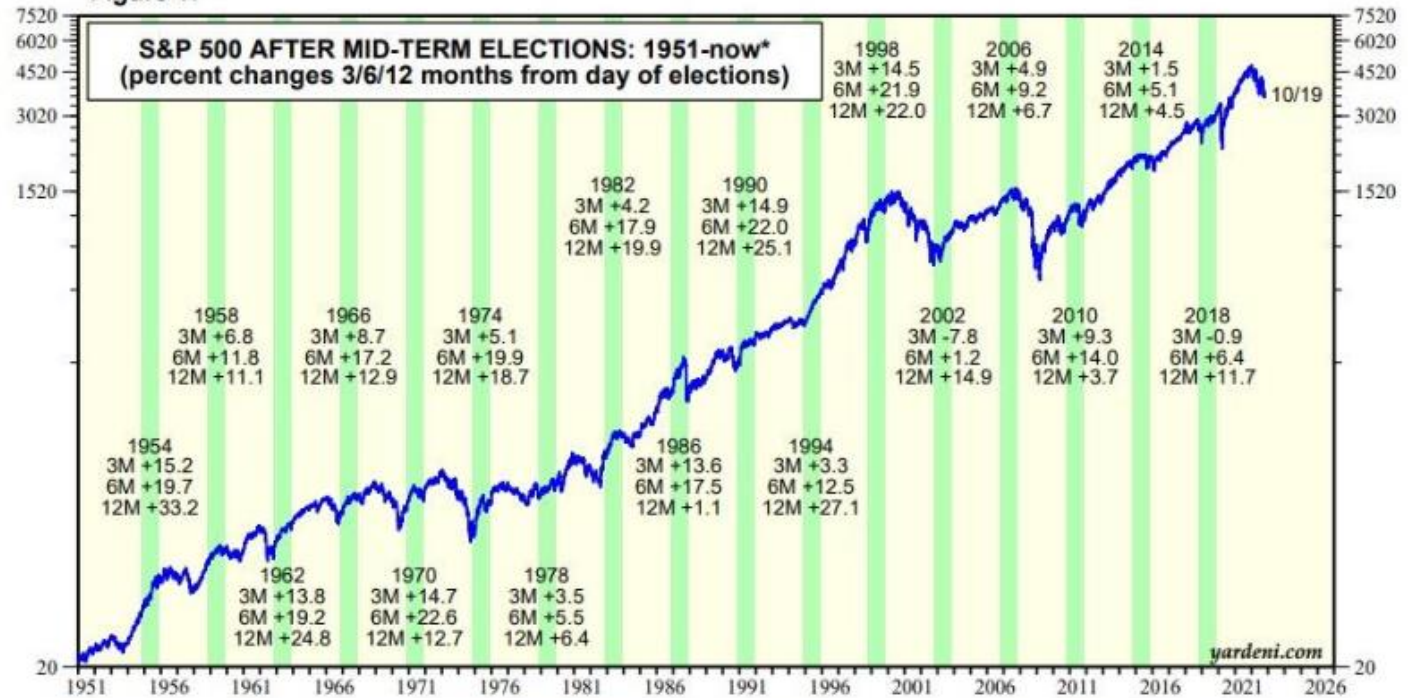


* ADJUSTABLE-RATE MORTGAGE LOANS ARE NEW LOANS ISSUED AT VARIABLE RATE OR WITH AN INITIAL RATE FIXED FOR A PERIOD OF UP TO 1 YEAR.
SOURCE: OECD. DATA FOR 2022 OR LATEST AVAILABLE.

Mid-Term
Elections –
Dispassionately
Bullish

S&P 500 Congressional Cycle

Figure 1.

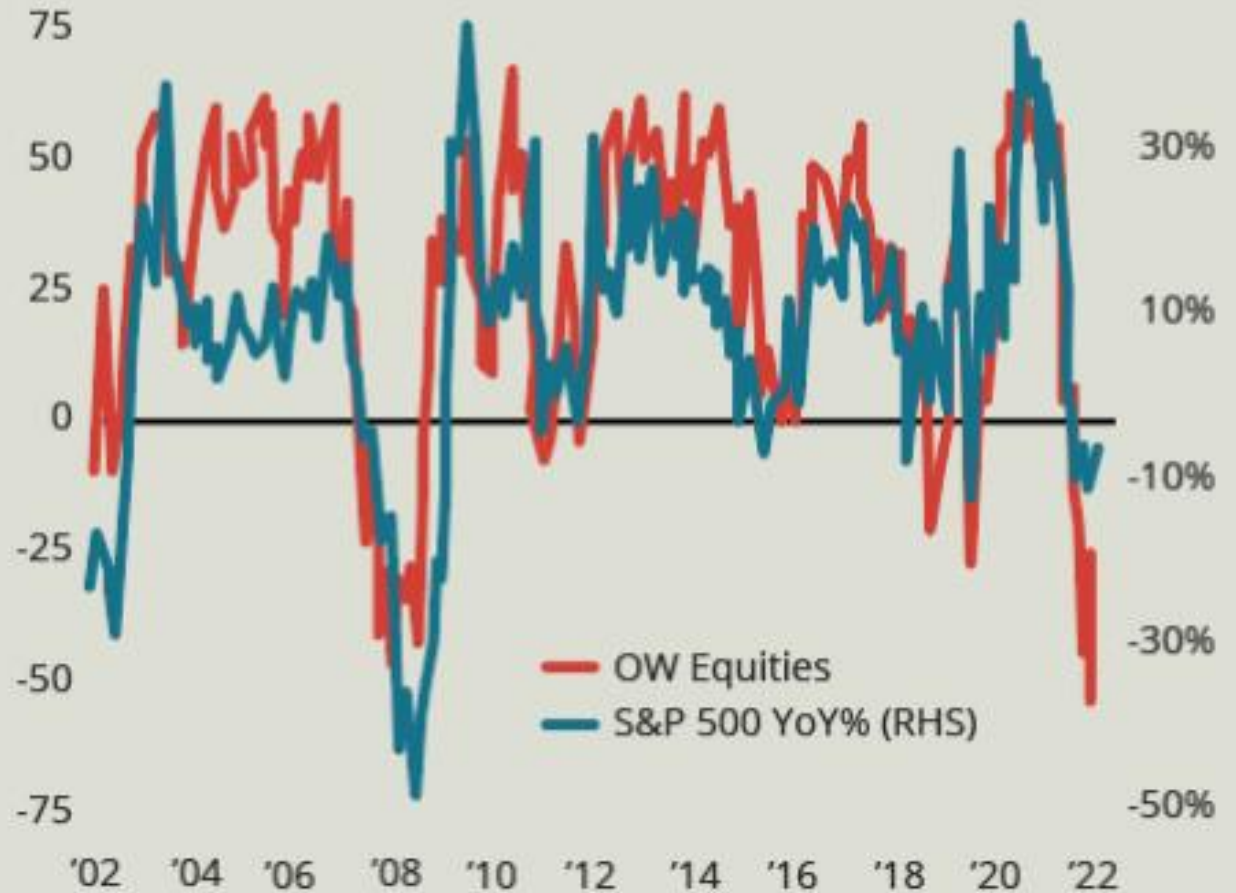


* S&P 500 up (down) during 12-month span following election day in green (red) shaded area. Prior to 1969, markets were closed on election day, therefore used "latest close" for those dates.
Source: Haver Analytics, Standard & Poor's, YRI calculations.

**Equity
Positioning –
Bearishly Low
Now
(Typically a
Counter-Trend
Signal to Buy)**

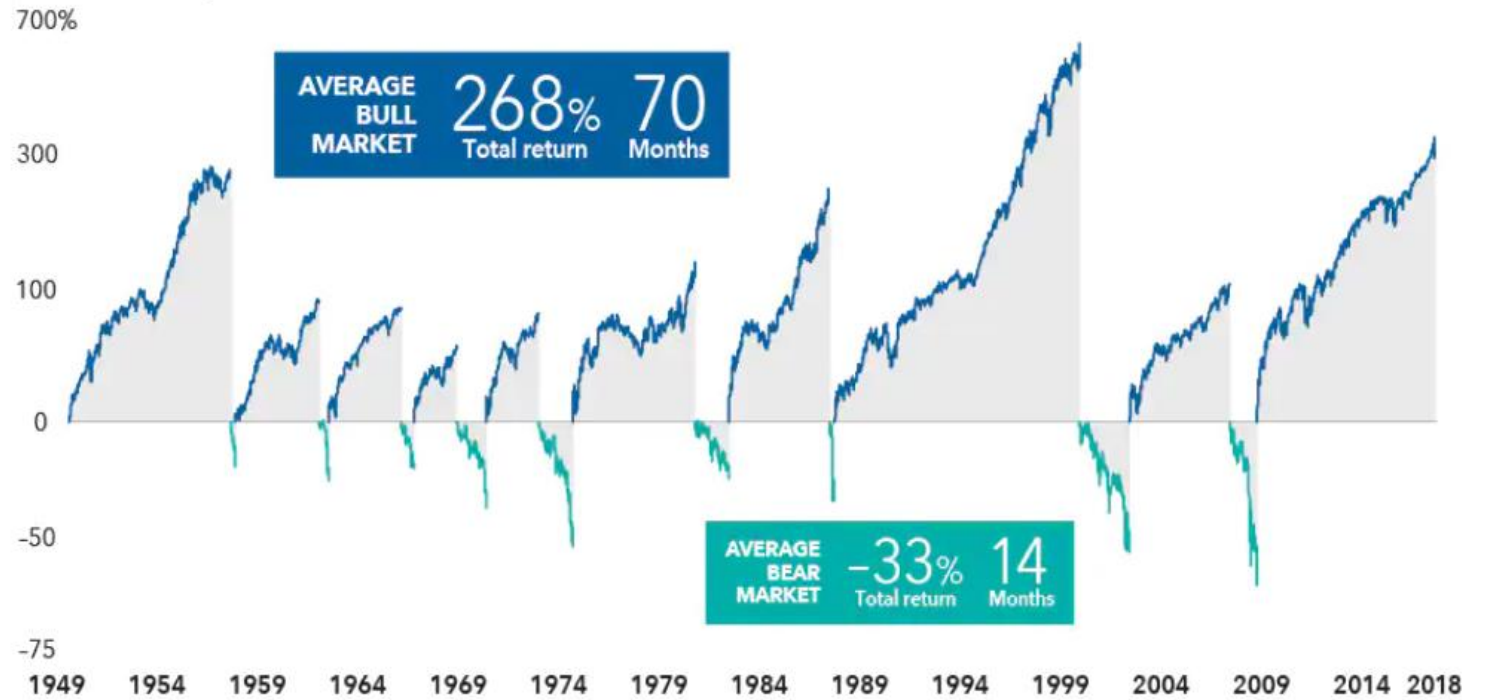
FMS Asset Allocation to Global Stocks at All-Time Low

Net % of FMS investors that are overweight/underweight equities vs
YoY change in S&P 500 returns



Bear Markets
<<< Bull Markets

Cumulative price return for each bull and bear market



Sources: Capital Group, RIMES and Standard & Poor's. Bear markets represent peak-to-trough price declines of 20% or more in the S&P 500. Bull markets reflect all other periods. Returns are shown on a logarithmic scale through February 14, 2018. Past results are not predictive of results in future periods.

Earnings – Bottom Only After the Market

EPS: S&P 500 bottoms 11-12 months BEFORE EPS bottoms

	(a)	(b)	(a)-(b)		
	Date EPS Bottom	Date SPX Bottom	EPS Peak to Trough %	SPX Peak to Trough %	Delta EPS - SPX (Mos)
1	12/31/1921	8/31/1921	(81.0)	(31.9)	4
2	12/30/1932	7/8/1932	(74.2)	(86.1)	6
3	9/30/1938	5/27/1938	(49.2)	(50.2)	4
4	7/26/1946	4/24/1942	(28.0)	(44.9)	52
5	6/27/1952	6/10/1949	(17.6)	(28.0)	37
6	4/3/1959	12/20/1957	(23.4)	(20.5)	16
7	6/30/1961	6/22/1962	(14.6)	(26.8)	(12) Market bottoms <u>after</u> EPS bottom
8	6/30/1967	10/7/1966	(16.4)	(22.0)	9
9	7/30/1971	5/22/1970	(18.4)	(33.1)	14
10	2/27/1976	10/4/1974	(21.6)	(48.0)	17
11	7/29/1983	8/6/1982	(25.8)	(26.2)	12
12	10/16/1987	12/4/1987	(22.5)	(33.0)	(2) Market bottoms <u>after</u> EPS bottom
13	6/19/1992	10/12/1990	(41.2)	(18.3)	21
14	4/5/2002	10/4/2002	(25.6)	(47.6)	(6) Market bottoms <u>after</u> EPS bottom
15	12/25/2009	3/6/2009	(52.9)	(56.2)	10
16	3/26/2021	3/20/2020	(20.8)	(31.8)	12
		Average	(33.3)	(37.8)	12
		Median	(24.5)	(32.4)	11

Equities bottom
11-12 months
before EPS

Source: Fundstrat, Bloomberg

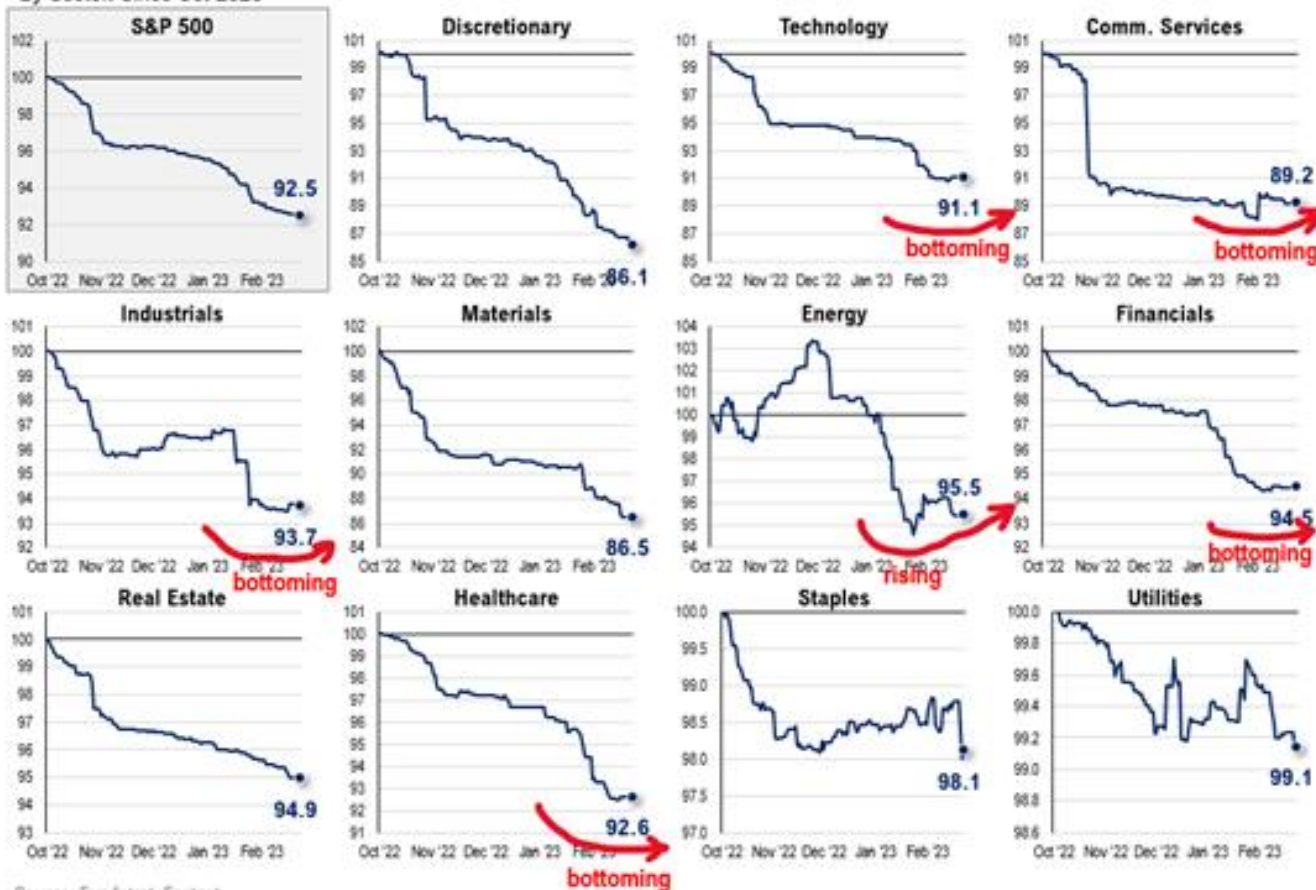
Earnings – 6 of 11 Sectors Now Bottoming

EPS: estimates possibly bottoming?

6 of 11 sectors see EPS possibly bottoming

Rebased 2023 Consensus EPS (10/1/2022 = 100)

By Sector. Since Oct 2020



Source: Fundstrat, Factset

2023 – Overall

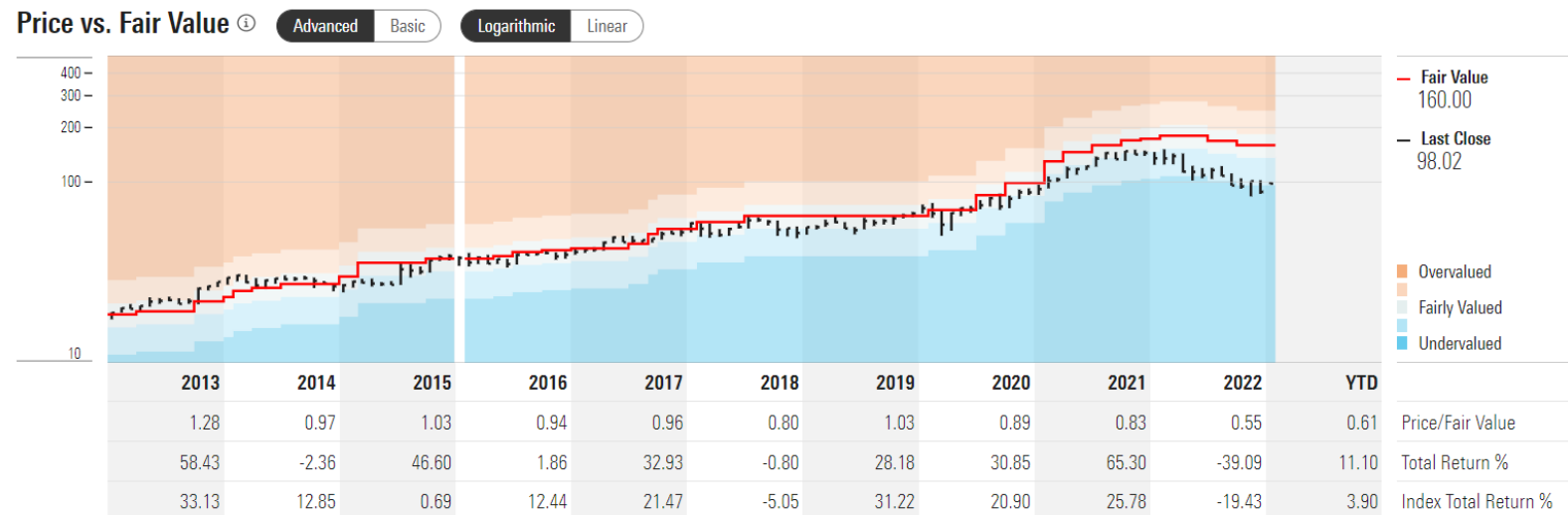
- Market consensus, as measured by stock prices, is too bearish
- The bullish surprises will start with softening inflation
- **We believe the Fed will pivot (and language has become more Dovish) – however, an accommodative Fed is not a pre-condition to a new Bull Market**
- Stocks will respond positively, returns in “a year like this” are above 20%
- Look for beaten up growth stocks to do well
- Dividend Growth stocks will shine
- Bonds may do well, also; but not as well as stocks

Top Holdings

Company	Weighting %
Apple	5
Microsoft	5
Amazon	5
Google	4
Nvidia	2
Visa	2
AssetMark Holdings	2
Houlihan Lokey	2
Thermo Fisher	2
Vertex	1
Regeneron	1

We Invest in Quality Companies

- Companies with Durable competitive advantages
- These advantages manifest themselves through high profit margins, growing top and bottom lines, and balance sheets which are able to survive a recession due to low debt-burdens, and low interest payments
- They are companies with solid free cash flow, oftentimes in an expanding industry, where the “pie” is expanding, but their market share is also growing as a percentage of the pie



USD | As of Jan 20, 2023 | Index: Morningstar US Market TR USD

**Avoid/Exit
Deteriorating
Companies
Sooner Than The
Index**

- Stock Indexes will commonly mask weak performance in a number of sectors
- All the stocks in the index do not create profit, and sometimes these unprofitable companies fall out of favor, or go bankrupt

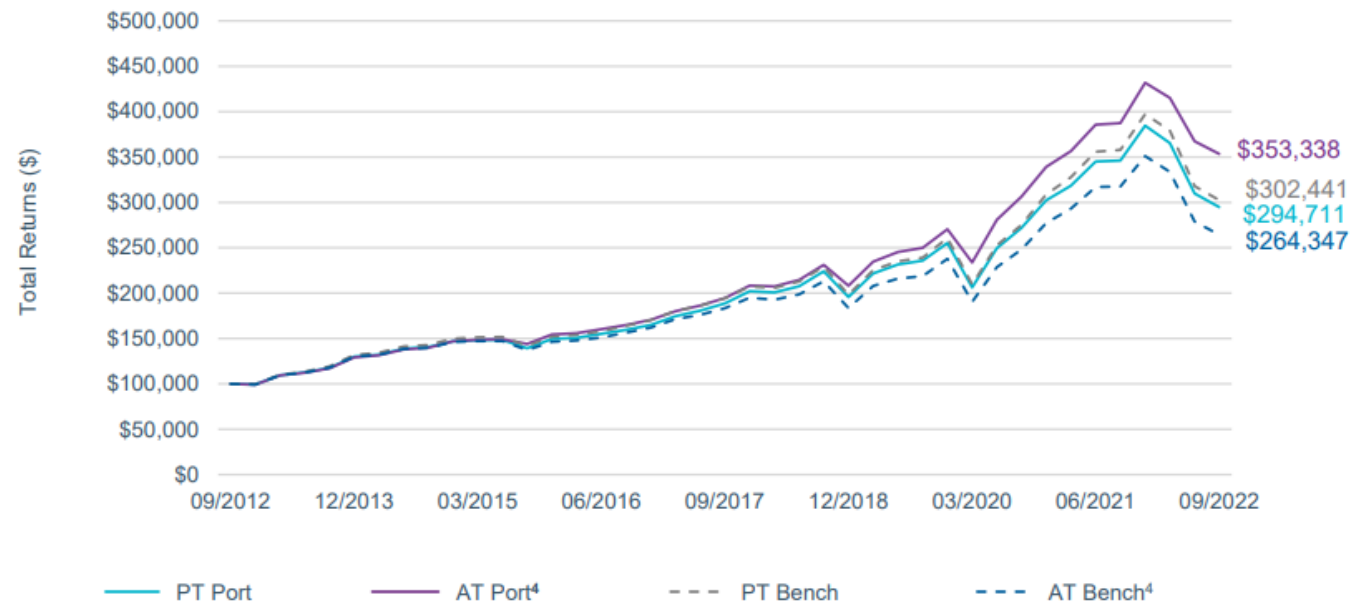
JCPenney

amc[®]
THEATRES

GameStop

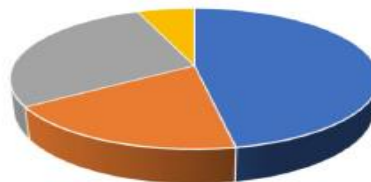
We Tax-Loss Harvest Every Month of the Year

- Unlike Traditional money managers who only harvest taxable losses at year end, we feel it is prudent to do so throughout the year
- There is a high utility to this strategy, during years of high market volatility
- Research shows that the power of loss-harvesting can help add a couple percentage point per year to return



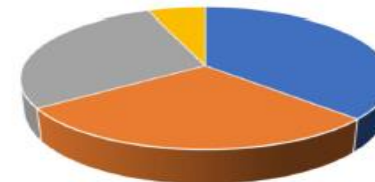
Models & Strategies

ARCHETYPE 1



- Large Cap Growth
- Large Cap Value
- Small & Mid Cap
- International

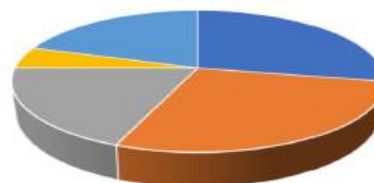
ARCHETYPE 2



- Large Cap Growth
- Large Cap Value
- Small & Mid Cap
- International

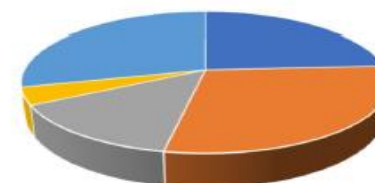
ARCHETYPE 1		ARCHETYPE 2	
Large Cap Growth	47%	Large Cap Growth	37%
Large Cap Value	18.8%	Large Cap Value	28.5%
Small & Mid Cap	28.2%	Small & Mid Cap	28.5%
International	6%	International	6%
Fixed-Income	0%	Fixed-Income	0%

ARCHETYPE 3



- Large Cap Growth
- Large Cap Value
- Small & Mid Cap
- International
- Fixed-Income

ARCHETYPE 4



- Large Cap Growth
- Large Cap Value
- Small & Mid Cap
- International
- Fixed-Income

ARCHETYPE 3		ARCHETYPE 4	
Large Cap Growth	28%	Large Cap Growth	24%
Large Cap Value	28%	Large Cap Value	28.8%
Small & Mid Cap	19%	Small & Mid Cap	14%
International	5%	International	4%
Fixed-Income	20%	Fixed-Income	28.8%