



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.

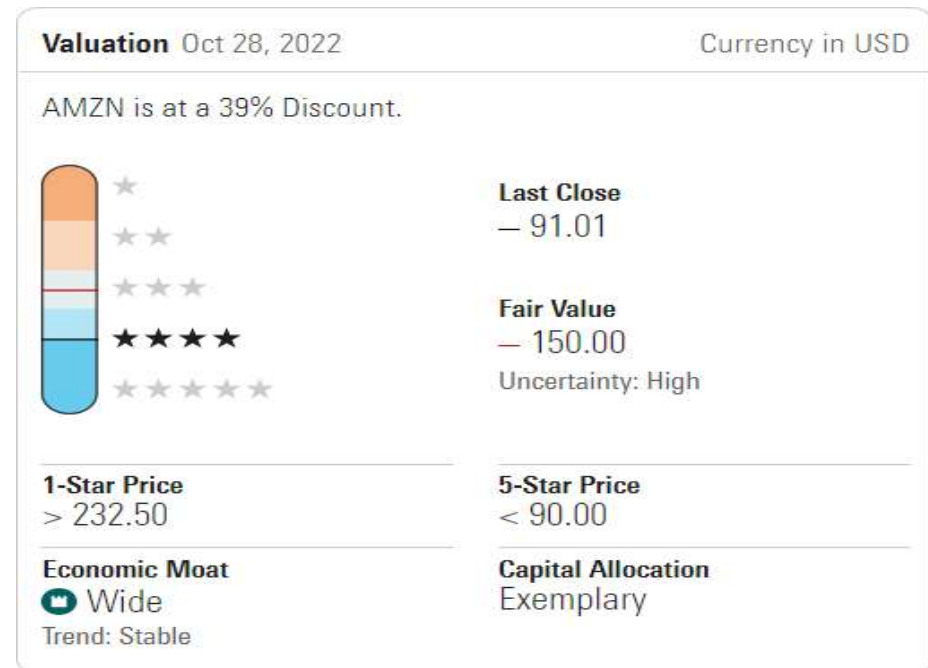
We Invest in Quality Companies

- 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






Portfolio Management Philosophy

- Marathon Financial aggregates fundamental (revenue, earnings, and balance sheet) data, as well as macroeconomic reports from the largest financial institutions such as Goldman Sachs and Morningstar Institutional Research.



Portfolio Management Philosophy

- We combine the bottoms-up earnings data, with technical, relative-strength data provided by our technology partner, Nasdaq (who owns a specialized software system called Dorsey Wright)

Broadcom Ltd (AVGO) *OptionsPlay*
\$574.93 -1.96 (-0.34%)  1  0  0



Trend 
Positive 

Strength vs. Market SPXEWI 
Buy Signal 
X Column 

Strength vs. Peers DWASEMI 
Buy Signal 
X Column 

**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

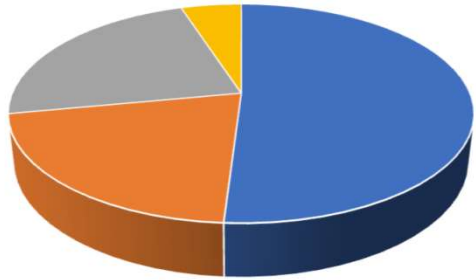
AMC
THEATRES

GameStop

In summary

- We primarily invest directly in high quality companies (stocks)
 - Allows us to be selective about what you own, and how much of it you own
 - Must be profitable
 - Durable competitive advantages
 - Large 'moat'/significant cash on balance sheet
 - Keeps expenses lower
 - Optimizes tax loss harvesting opportunities (the longer you can defer taxes, the more compounding occurs, resulting in higher asset values)
- We know we don't have a crystal ball
 - Rather than trying to guess long-term winners, we are seeking to add return/value by simply avoiding/exiting weakness, sooner than the index would

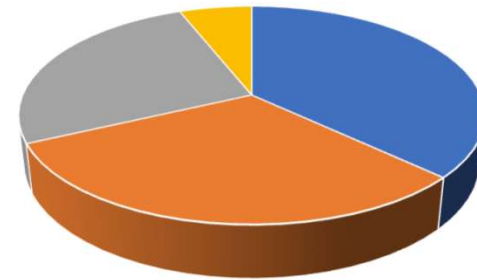
ARCHETYPE 1



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

Large Cap Growth	51%
Large Cap Value	21%
Small & Mid Cap	23%
International	5%

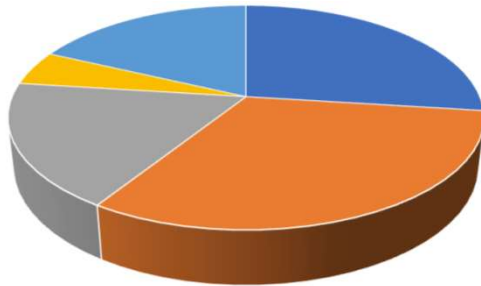
ARCHETYPE 2



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

Large Cap Growth	38%
Large Cap Value	32%
Small & Mid Cap	25%
International	5%

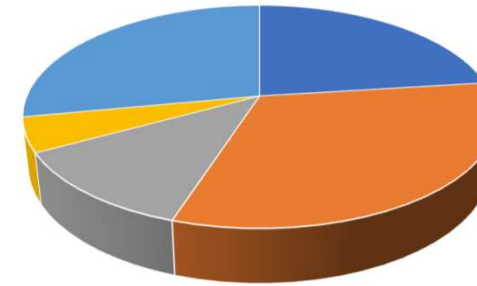
ARCHETYPE 3



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

Large Cap Growth	27%
Large Cap Value	32%
Small & Mid Cap	18%
International	5%
Fixed-Income	18%

ARCHETYPE 4



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

Large Cap Growth	23%
Large Cap Value	32%
Small & Mid Cap	12%
International	5%
Fixed-Income	28%

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%

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

Fixed-Income – Getting Compensated for High-Yield



Source: Bloomberg, ICE BofA Global High Yield Bond Index, yield to worst, Govt OAS (option-adjusted spread), monthly datapoints, 31 December 2017 to 31 October 2022. TMT= Telecom, media, telecoms. GFC = Global Financial Crisis. Basis point (bp) equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%. Yields may vary over time and are not guaranteed.

Stock Market 2023 – Don't Call it a Comeback

SPDR S&P 500 ETF Trust (SPY) ☆
NYSEArca - Nasdaq Real Time Price. Currency in USD

452.71 +3.87 (+0.86%)
As of 12:44PM EDT. Market open.

← Comparison ≡ Indicators □ Technicals 🔔 Corporate Events 📊 Line ▾ ✎ 📱

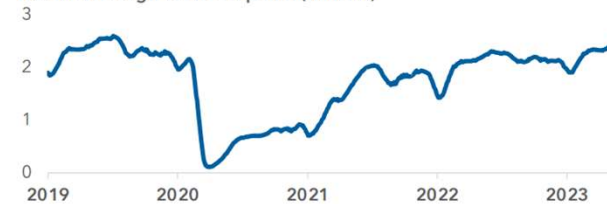


2023 or 2024 Recession? Maybe Neither

"Mini recessions" have rolled across different industries and sectors

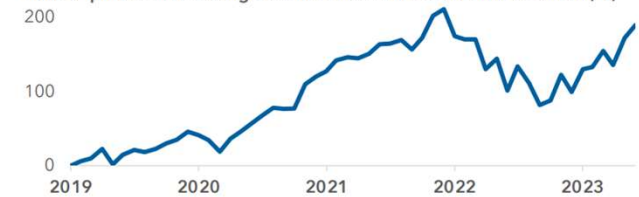
Travel

Travelers through TSA checkpoints (millions)



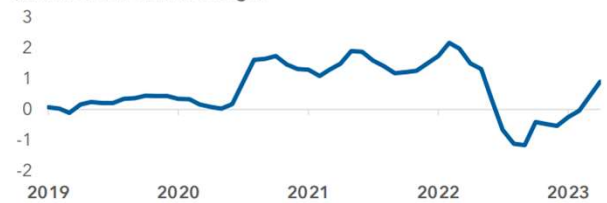
Semiconductors

Philadelphia Stock Exchange Semiconductor Index cumulative return (%)



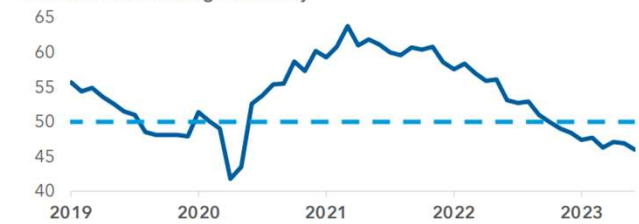
Housing

S&P CoreLogic Case-Shiller 20-City Composite Home Price Index (month-over-month % change)



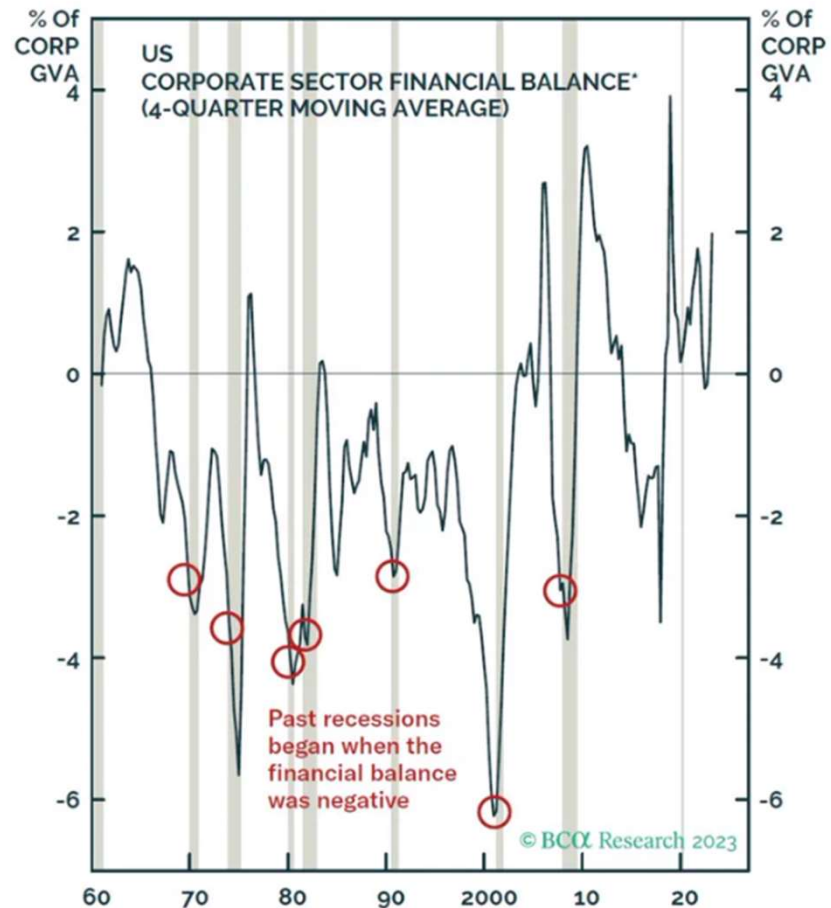
Manufacturing

U.S. ISM Manufacturing PMI Survey



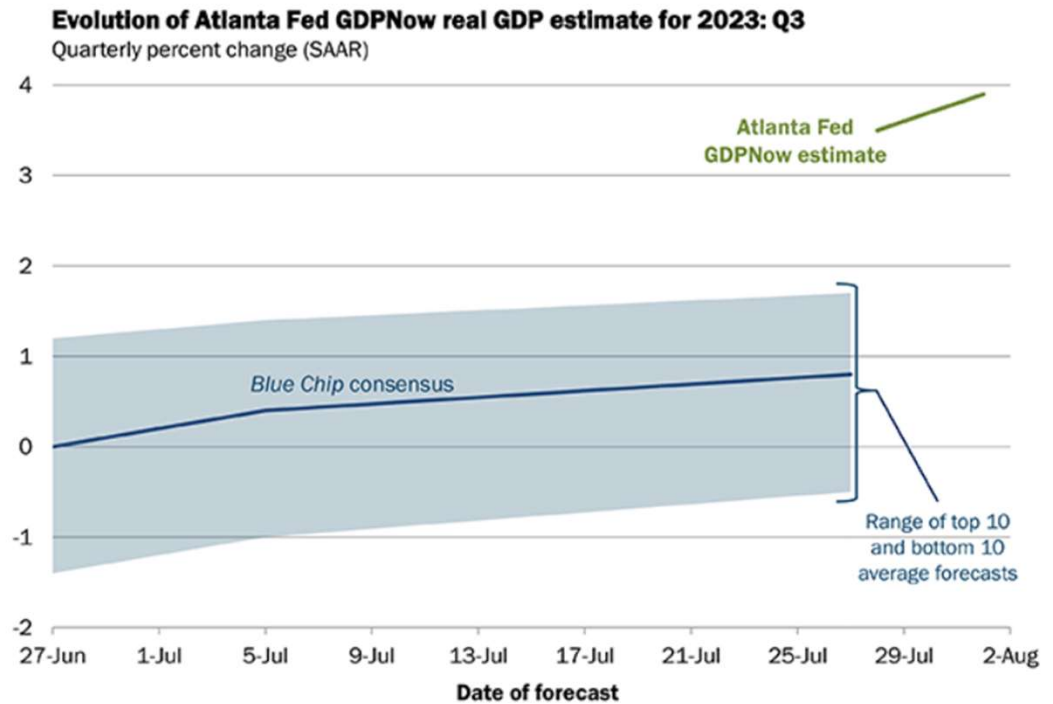
Sources: Travel: Capital Group, Transportation Security Agency (TSA), US Department of Homeland Security. Data is a 30-day moving average. As of July 5, 2023. Semiconductors: Capital Group, Philadelphia Stock Exchange, Refinitiv Datastream. As of June 30, 2023. Data represents cumulative price return since January 1, 2019. Housing: Capital Group, Refinitiv Datastream, Standard & Poor's. Latest available monthly data is April 2023, as of July 6, 2023. Manufacturing: Capital Group, Institute for Supply Management (ISM), National Bureau of Economic Research, Refinitiv Datastream. Figures reflect the seasonally adjusted survey results from ISM's Manufacturing Purchasing Manager's Index (PMI). A PMI reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining. As of June 30, 2023. Past results are not predictive of results in future periods.

**Recession is
Not Base Case
– No Recession
Started with
Corporates so
Strong**



* DIFFERENCE BETWEEN GROSS SAVINGS LESS NET CAPITAL TRANSFERS PAID LESS FOREIGN EARNINGS RETAINED ABROAD AND CAPITAL EXPENDITURES.
SOURCE: FEDERAL RESERVE, FINANCIAL ACCOUNTS OF THE UNITED STATES.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

Forget Soft-Landing vs. No Landing – We are Re-accelerating Growth



Compared to '08-'09, We are "Night and Day"

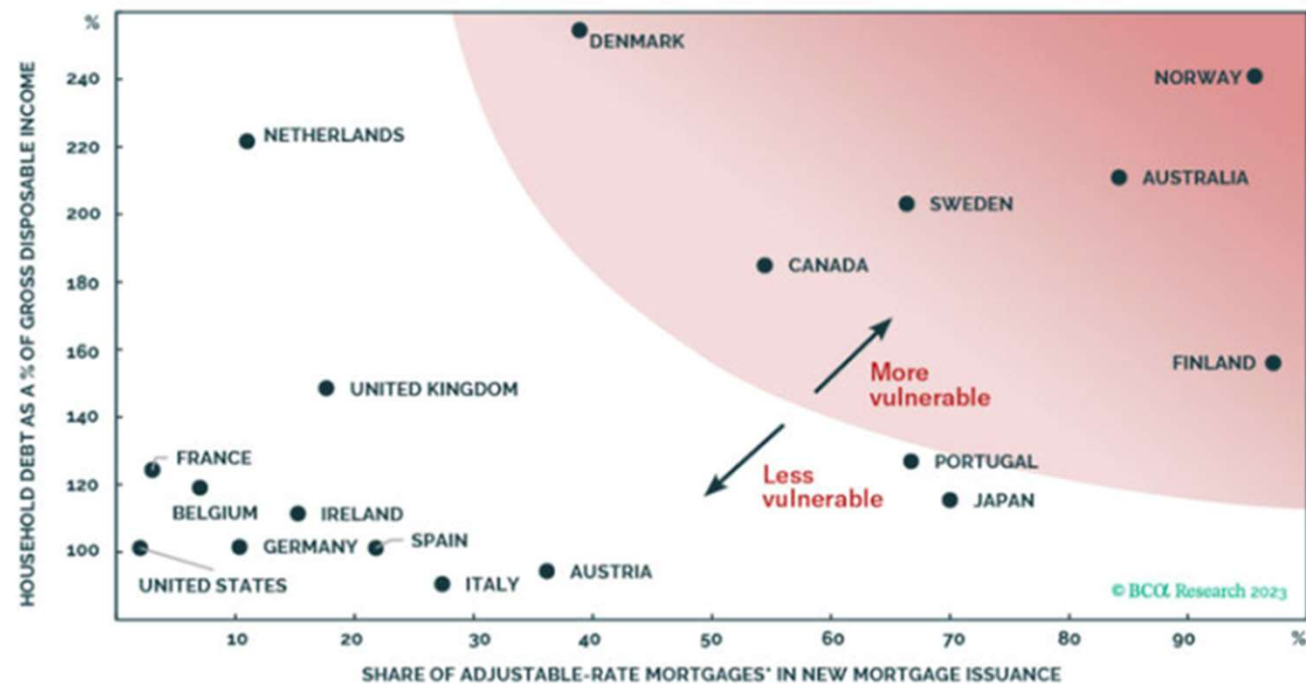
U.S. Housing Market Assets vs. Liabilities



Source: Federal Reserve Board, Bureau of Economic Analysis / Haver Analytics. As of Q4 2022.

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



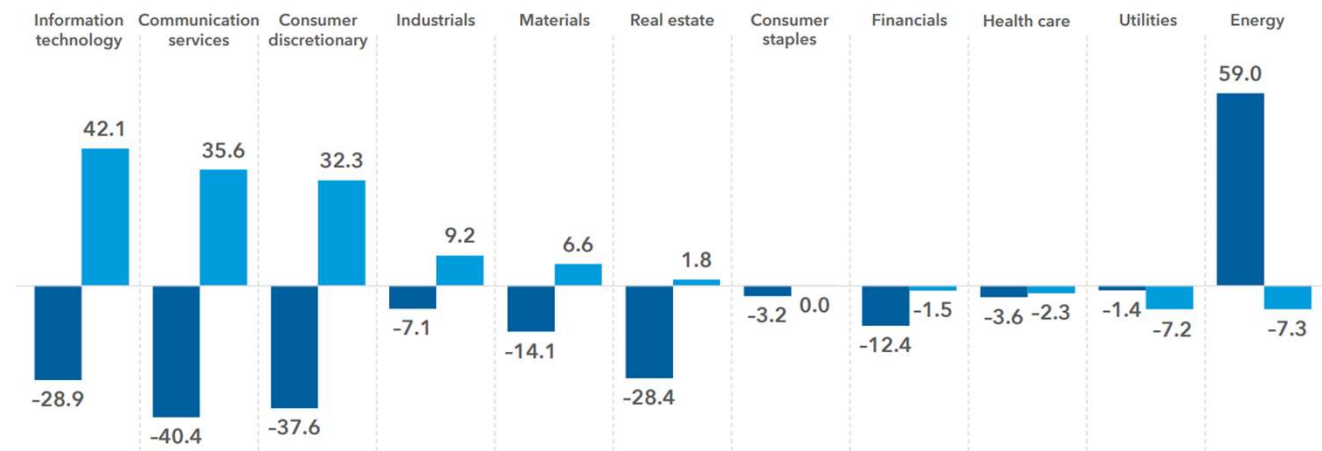
* ADJUSTABLE-RATE MORTGAGE LOANS ARE NEW LOANS ISSUED AT VARIABLE RATE OR WITH AN INITIAL RATE FIXED FOR A PERIOD OF UP TO 1 YEAR. SOURCE: OECD. DATA FOR 2022 OR LATEST AVAILABLE.

Sector Returns – A Mirror Image of 2022

Will the growth comeback continue in the second half of the year?

S&P 500 Index sector returns (%)

■ 2022 ■ 2023 (YTD)



Sources: Capital Group, FactSet, Standard & Poor's. Sector returns reflect total returns in USD. As of June 30, 2023. Past results are not predictive of results in future periods.

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Earnings Bottom Only After the Market Bottoms

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

**Corporate
Earnings –
We may be at
the Nadir**

2Q23 Y/Y Earnings Growth

Bottom-up based on constituents

Sector name	2Q23 Y/Y Earnings growth		
	Actual (cos that reported)	Estimates (cos yet to report)	Blend of actuals & estimates
S&P 500 (absolute)	-5.5%	-1.7%	-5.0%
Cyclicals	13.3%	2.4%	11.2%
Near-Cyclicals	-18.7%	-18.8%	-18.7%
Defensives	-17.8%	-4.0%	-15.9%
Technology	-5.7%	23.0%	0.3%
Consumer Discretionary	89.7%	-8.8%	54.2%
Industrials	15.3%	0.7%	13.1%
Basic Materials	-24.9%	-47.2%	-28.3%
Communication Services	28.6%	-28.0%	23.0%
Financials	4.0%	-10.7%	2.9%
Real Estate	10.1%	—	10.1%
Energy	-51.0%	-51.9%	-51.1%
Healthcare	-30.3%	5.7%	-27.5%
Consumer Staples	10.3%	-7.1%	5.9%
Utilities	10.1%	-17.3%	4.0%

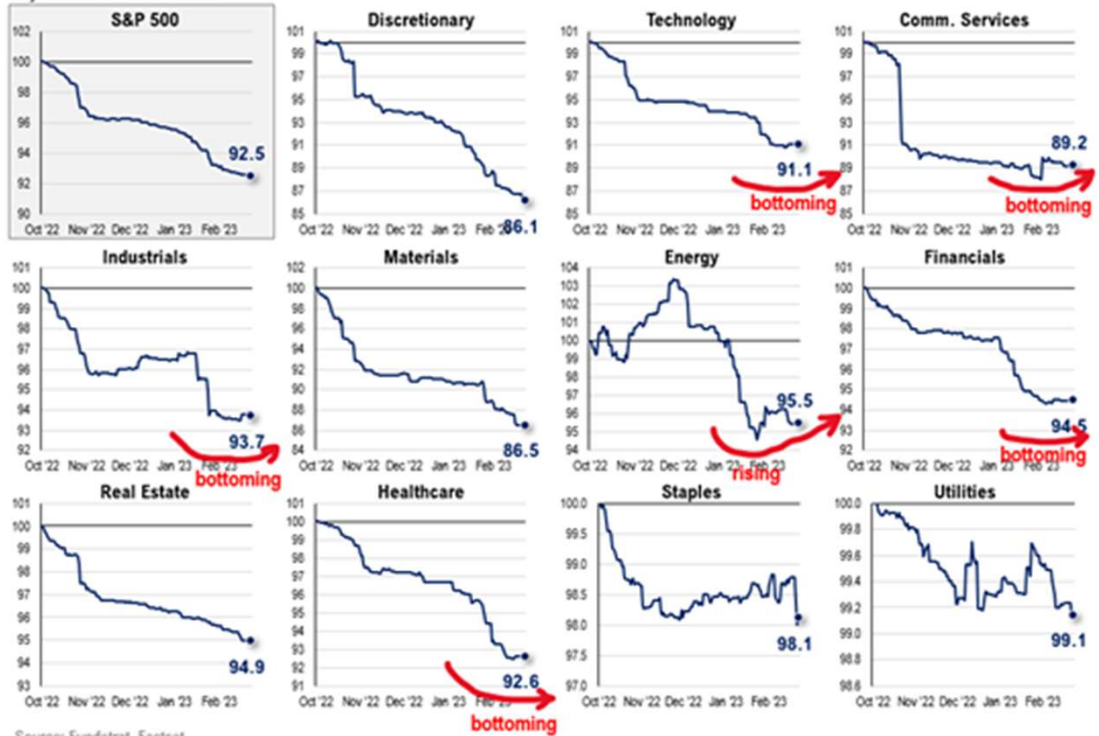
Positive Surprises coming from Cyclicals, Discretionary, Comm Services (not spelling a Recession.)

Earnings – 6 of 11 Sectors Now Bottoming

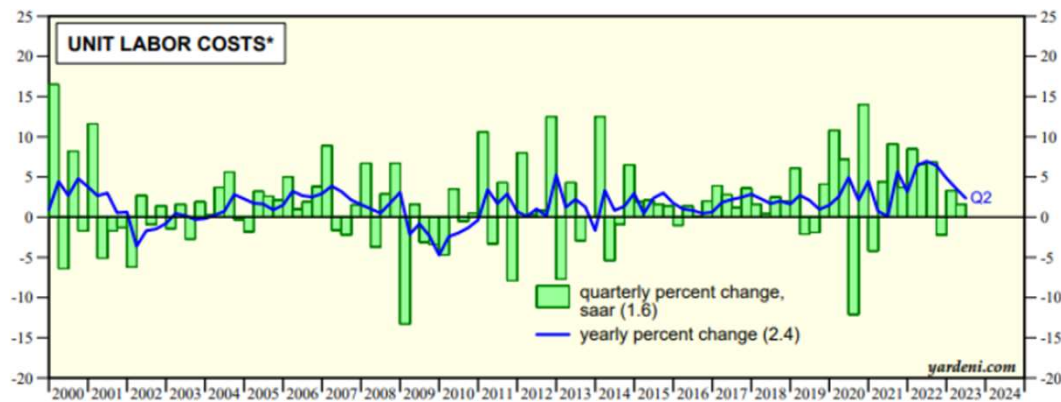
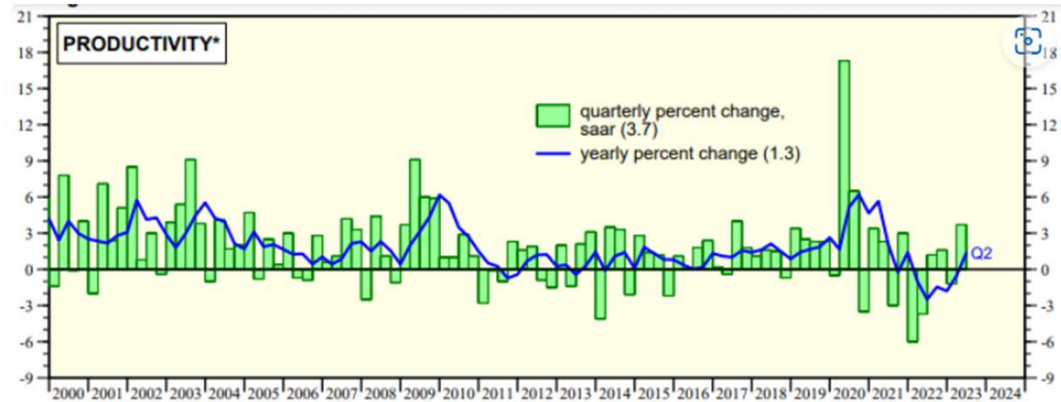
EPS: estimates possibly bottoming?

6 of 11 sectors see EPS possibly bottoming

Rebased 2023 Consensus EPS (10/1/2022 = 100)
By Sector. Since Oct 2020



Productivity Boom & Soft Labor-Costs are Saving US



*Nonfarm business.

Bearish Narratives: Dispelled – “Bad Breadth”



Despite Strong Returns – “Magnificent 7” Still Not at All-Time Highs

NASDAQ Composite (^IXIC) ☆
Nasdaq GIDS - Nasdaq GIDS Real Time Price. Currency in USD

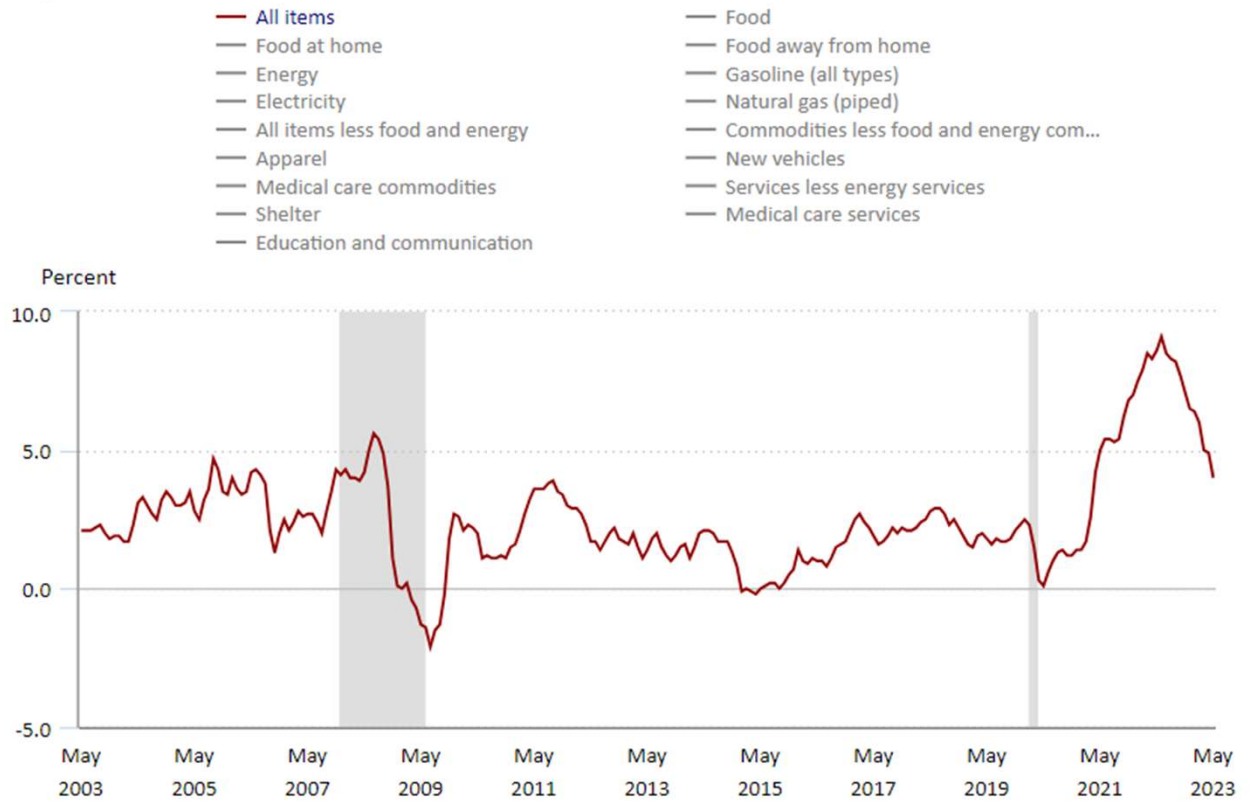
14,087.76 +128.05 (+0.92%)
As of 11:55AM EDT. Market open.

Comparison Indicators Technicals Corporate Events Line



Inflation – Weakening Rapidly

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



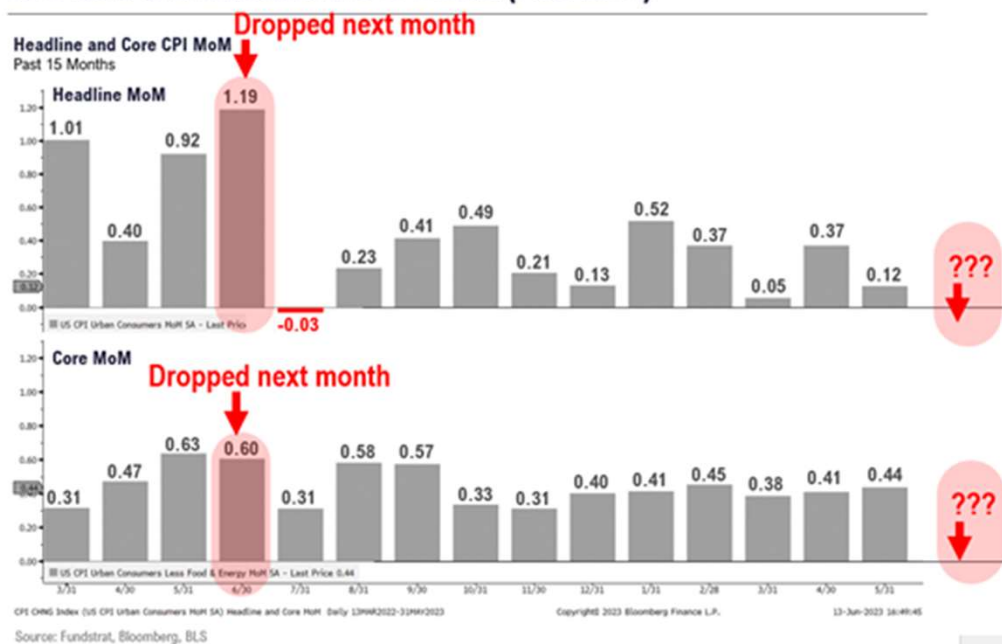
Hover over chart to view data.
 Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
 Source: U.S. Bureau of Labor Statistics.



Large 2022
Inflation
Prints “falling
off”

Next month, the huge June CPI is dropped. We highlight this below.

CPI: Core and Headline MoM Trends (Past 15M)

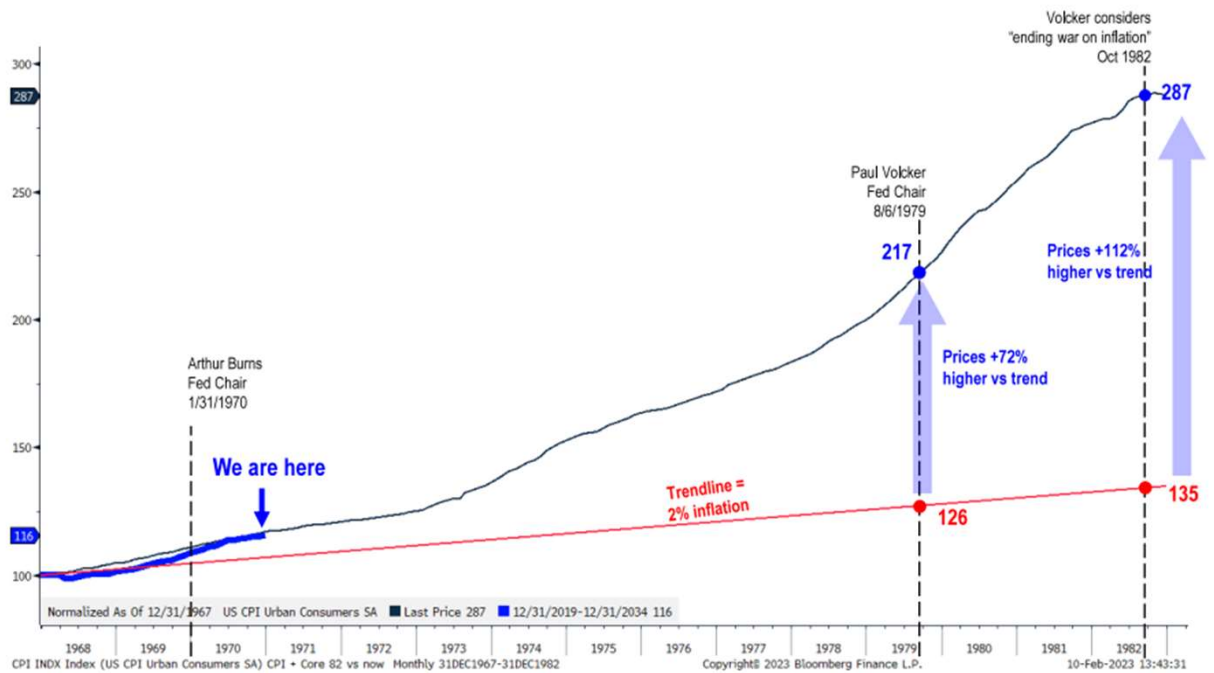


And this means the YoY will drop by as much as 100bp in June 2023 (next month) vs May 2023 CPI. Wow.

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



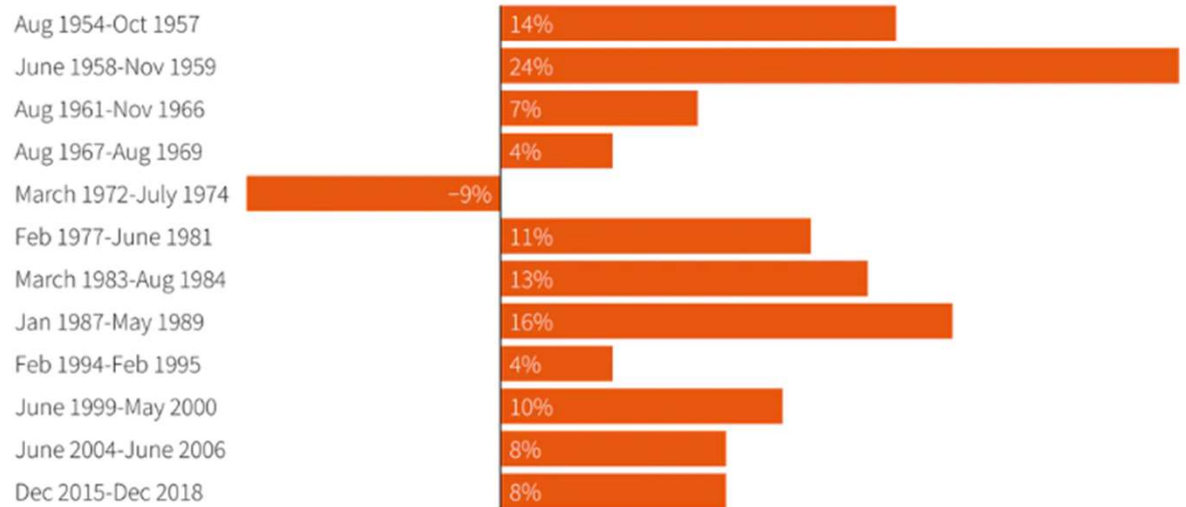
Source: Fundstrat, Bloomberg, BLS

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

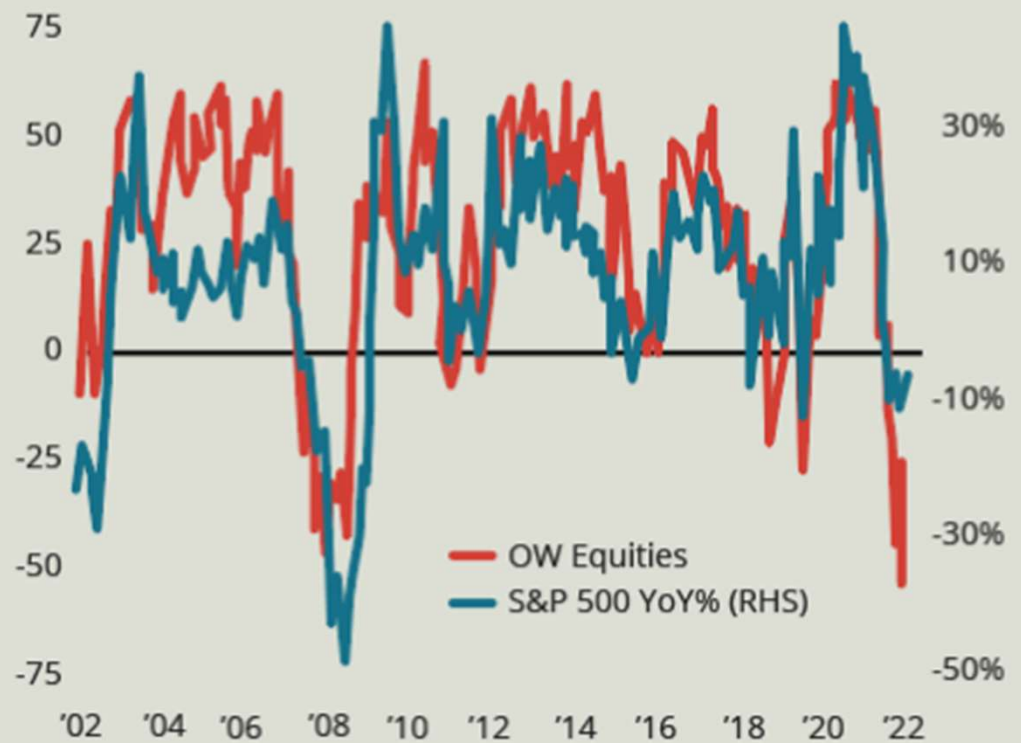
Source: Truist Advisory Services

Reuters Graphics

**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

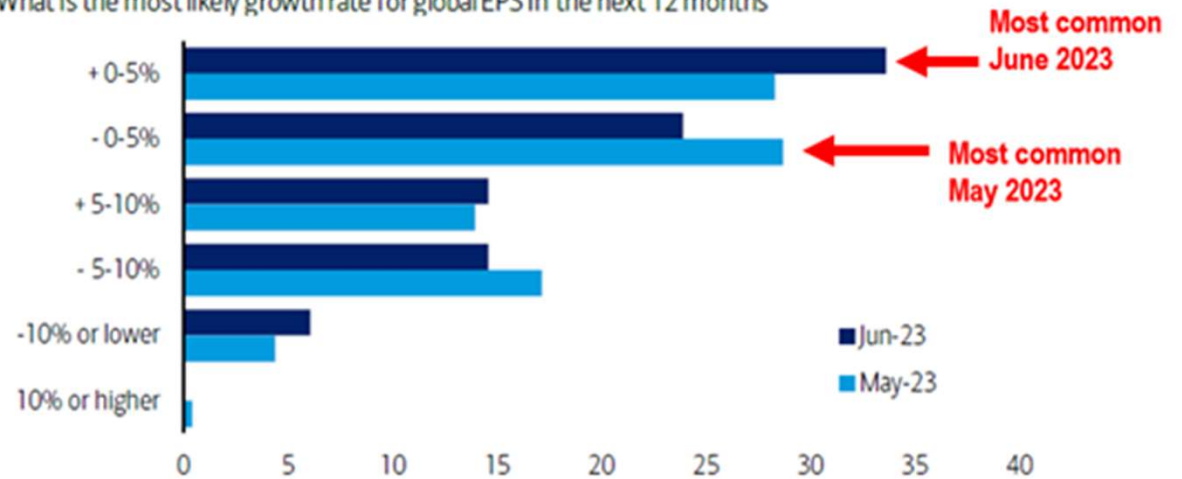


**Fund Managers
Are Capitulating
And Buying
Stocks**

“Slipping into an expansion”

Chart 6: Earnings expectations shifting from 0 to -5% to 0 to +5%

What is the most likely growth rate for global EPS in the next 12 months



Source: BofA Global Fund Manager Survey.

BofA GLOBAL RESEARCH

2023 – Investment Outlook

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

	(a) N=	YTD	FY % gain	(b) FY >20% N=	(c)= (b)/(a) % 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%**

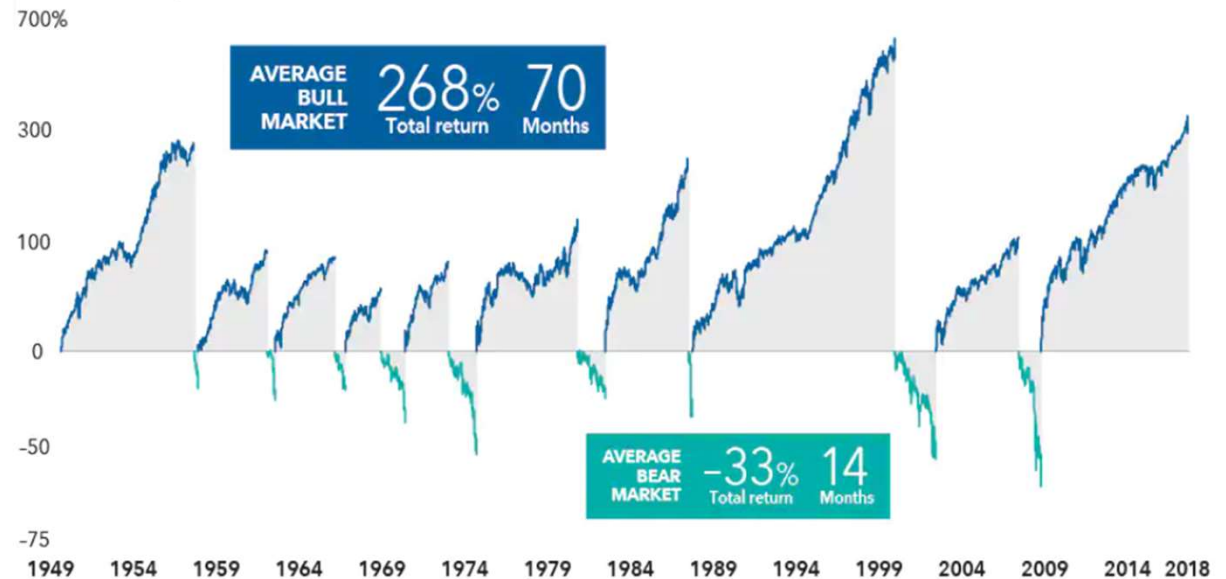


2023 – Overall

- 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

**Bear Markets
<<< Bull Markets**

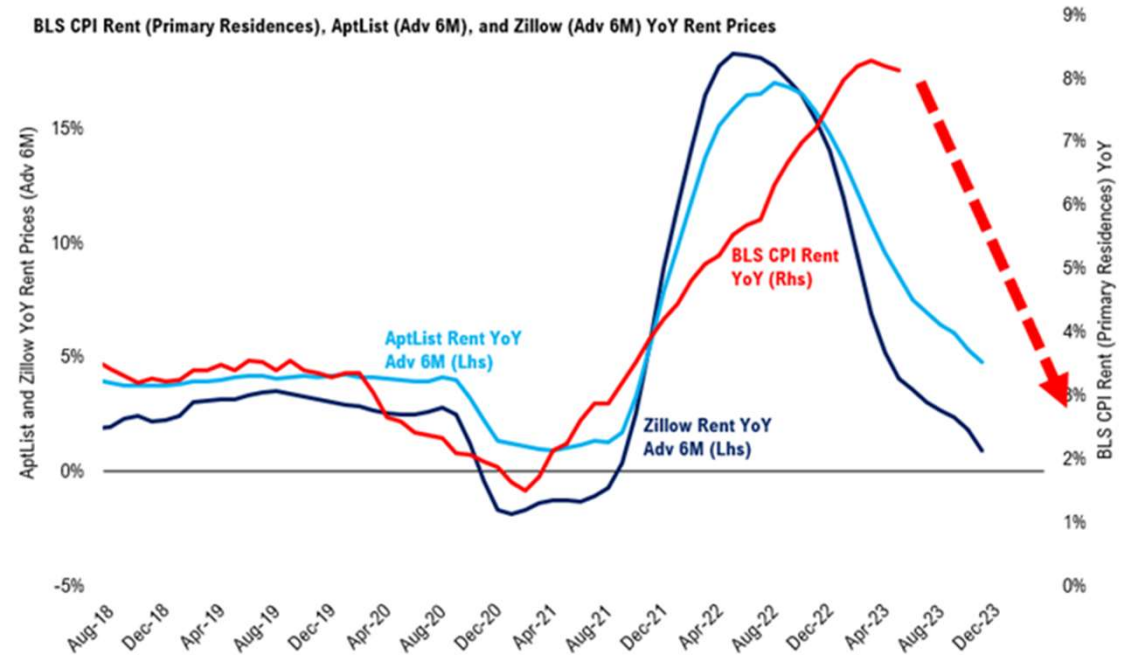
Cumulative price return for each bull and bear market



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.

CPI RENT (Primary Residences): “Gonna rollover at some point”

BLS CPI Rent (Primary Residences), AptList (Adv 6M), and Zillow (Adv 6M) YoY Rent Prices Since 2018



Source: Fundstrat, BLS, Apartmentlist, Zillow

CPI From Rent
– Set to Drag
Inflation
Down

Alt-Core Inflation – At Fed Target (Bringing Real Time Rental Data Into CPI)

