Hello Everybody,

There is no doubt that 2022 was not kind for stocks and bonds.
It was the worst year for stocks since 2008 and the fourth worst year since 1945.
And for bonds it was the worst year ever!

Markets in Review

The 2022 Equity Scorecard –

	2022 Close	2022 Year-End Return
Dow Jones Industrials Average (DJIA) (30 large cap blue-chip companies in the U.S.)	**33,147.25**	**-8.8%**
S&P 500 (SPX) (500 large cap companies in the U.S.)	**3,839.50**	**-19.4%**
NASDAQ Composite Index (COMP) (More than 2,500 companies)	**10,466.48**	**-33.1%**
S&P Total Market Index (4,272 companies in the U.S.)	**3,887.41**	**-19.5**
Foreign Large Value Stocks (962 international companies in 15 countries)	-	**-15.8%**
Emerging Markets (1,377 international companies, in 24 countries)	**-**	**-19.1%**

During 2022, there were 122 trading days which is 1/3 of the total trading days, that the S&P 500 had moves of more than 1%. The most volatile market since 1945.CFRA, 12/29/2022

Stocks closed out their worst year since 2008 and suffered the fourth worst year since 1945. WSJ, 12/31/2022

Hedge funds, which represent the "smart and rich money", suffered the worst returns in 14 years. CNBC, 12/31/202

Bonds

The U.S. bond market index fell -12.5%, most in its history, fueled by inflation pressures that prompted the Federal Reserve to hike its overnight benchmark by more than four percentage points. **Bloomberg 12/31/2022**
Yields rose through much of 2022 but ended below their highs.
The 2-year and 10-year Treasury yields shot up due to the rapid interest rate increases.

When interest rates rise, bond yields rise, and bond values decrease.

Bonds	Yield%
2-year Treasury	**4.40%**
10-Year Treasury	**3.88%**

(Yield is the income earned from an investment, in the form of interest or stock dividend payments).

Gold finished at 1,830.10 an ounce, up 1.6% for the year.

The Dollar Index (DXY) closed at $103.52, up 8.6% for the year.
It hit a 20 year high of **$114.10** in September.

Bad news is Good News for the Financial Markets

Our Viewpoint for 2023

Economy – The economy is slowing. December's CPI inflation rate came in with good news at a 6.5% (year-over-year), from November's 7.1%. It was the sixth straight month of declining inflation. But a few factors that are affecting food prices are not going away soon. **The war in Ukraine is affecting the prices of fertilizers and animal feeds; the avian flu continues to have an impact on the supply of eggs; and extreme weather conditions are complicating food production. Being affected besides eggs are butter, vegetable oil and other cooking oils**. MarketWatch, 01/12/2023
Despite all of the worries and concerns, we do expect the market to rally once the Federal Reserve pauses their rate increases. They will have to take a wait and see approach from their monetary policy sometime this year because the economy cannot endure many more rate increases without incurring severe and extended damage. The length of the pause will depend on how stubborn or sticky inflation is. Chances are the Fed will not achieve their target inflation rate of 2% by 2024. We are probably looking at a 3.5% to 4.0% inflation rate going into next year.

According to the Bureau of Labor Statistics, the average annual rate of inflation for the CPI in the U.S. from 1960 to 2020 is about 3.2%.

What's Ahead for the Markets in 2023?

The economy and the stock market are not the same thing, but they are tightly linked together.
While the economy's data and reports look backwards, the stock market looks forward. It is a forward pricing mechanism. While economists, and both institutional and individual investors cannot consistently predict future economic and stock market performance, the stock market itself has an extraordinary track record of predicting where the economy will be six to nine months from now. In the short-term, the markets can be fooled from the influence of investor's emotions of fear and greed, which directly

affects short-term trading activity. However, over the long term the stock market's record of forecasting upcoming economic conditions is remarkable.

The Stock Market – The Bear turns one year old
Tuesday January 3rd marked the one-year anniversary of the beginning of the Bear Market for the S&P 500.

Uncertain times may plague the financial markets for the first half of 2023:

1. Inflation is easing (except for food and costs of services); it is still above the 2% target rate of the Fed.

2. The Fed is determined to raise the unemployment rate up to 5%, from the current rate of 3.5%.

3. The persistent interest rate increases by the Federal Reserve to further slow the economy. Will they overdo it, causing a hard recession?
4. The Ukraine/Russian war.
5. The continuing effects of Covid

With these issues in mind, we are expecting the markets to be choppy for most of 2023, while continuing to be in a bottoming process that began in October of last year.

For individual investors, there is a hard realization that their expectations for both stock valuations and their investment returns need to be lowered for the next year or two.

Corporate earnings drive stock prices and high interest rates are the brakes (Federal Reserve). Earnings are projected to be flat to little growth for the first nine months of 2023. And at some point in time, stock prices need to match those earnings. When earnings growth goes up, stock prices follow suit. When earnings go down, stock prices will eventually follow and go lower.

There are 22 market analysts and strategists that have provided **2023 year-end value estimates** for the S&P500:

The average among the survey was for the S&P 500 to reach 4,078 by the end of 2023.

That represents a 6.2% return for from the 12/30/2022 close.
The highest estimate: 4,750 (Fundstrat)
The lowest estimate: 3,400 (NP Paribas)
12/30/2022 CNBC

The 52-week low for the S&P 500 was 3,492 which occurred on October 13, 2022. Since then, the S&P500 has been building a base. **It has been in a tight trading range, between 3,492 on the downside and 4,101 on the upside for the past 15 weeks**. **We will have to give the market more time to see if the 3,492 level holds.**

The growth stocks are having trouble trying to stabilize with their lower valuations. Technology stocks, having suffered the biggest beat down last year, may continue to struggle for the majority of 2023.
We still favor value, dividend paying stocks, over growth stocks for the first part of 2023:
Dividends are a corporation's share of profits paid to their shareholders usually on a quarterly basis.
Dividend payouts were a record $568 billion in 2022 due to corporation's strong cash flow and high profit margins.
Does dividend reinvesting matter?

S&P500 TOTAL RETURN

1926 – 2022

Average Yearly Total Return:	**10.2%**
Dividend as % of Total Return:	**39.0%**
Price as of % of Total Return:	**61.2%**

S&P Global, CNBC 01/11/2023
In the past 96 years, reinvesting dividends did matter, contributing up to 39% of the total annual average return.
As Dr. Jeremy Siegel said over 30 years ago in his book "Stocks *For The Long Run",* stocks are a great long-term investment, since corporations have pricing power for the most part, are almost like an inflation protected security. Because of this, Dr. Siegel discovered that stocks have outperformed any other type of investment going back to the 1800's. CNBC 01/17/2023

Our current overall average portfolio allocation is:
Cash: 12.50% / Bonds 14.5% / Equities: 72% / Gold: 1.0%
This allocation may not match your customized portfolio allocation.
Since the summer of 2020, we have roughly kept the equity allocation between 65% to 75%

Our average cash allocation is more than our typical 3% average holding. We kept an abnormally high cash position during 2022 for portfolio stability and added a few various equity and bond investments. During 2023, while the markets continue with their bottoming process, we will be employing approximately 7% of the cash position in the first nine months of the year. We will be investing in a few selective stocks and ETF's that are currently under review.

Bonds
We will be adding to our current short-term and intermediate term bond investments, (VCSH & VCIT.) **Our bond positions are currently yielding between**

4.34% (short term U.S. Treasuries and corporate bonds) and 5.25% (intermediate term corporate bonds).

Gold – We now have a positive outlook for the following reasons:
1. Interest rates should stabilize later this year. (Depending on the Federal Reserve's actions)
2. The dollar is rolling over from recent highs.
3. Central banks of foreign governments are beginning to add to their gold reserves in their portfolios.
4. Crypto currency (BITCOIN) has lost its sparkle and trustworthiness due to the lack of regulation and security to prevent incidents such as the current disastrous FTX situation and other scams and hacks. Digital currency is the future, but not now.

It would not be surprising if gold reaches an all-time high this year.

In summary and simply put:
The ball is in the Federal Reserve's court.

Starting this summer, we will also be providing our updates on video where you can view on our website and our business Facebook page.

Justin and I would appreciate any feedback or questions you may have.
Please feel free to contact us.

Phil and Justin