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WEALTH MANAGEMENT

**3rd Quarter 2023 Investment Letter by Erik Ridgley, CFA** November 8, 2023
CEO & Chief Investment Officer of Salem Partners Wealth Management

We wish all our clients and friends a safe and more peaceful autumn. Below we provide our investment outlook and a review of markets in the 3rd quarter of 2023. +13% equity returns year-to-date for U.S. large caps were driven by improving earnings prospects for the highly profitable technology sector, which constitutes over 27% of the stock market's capitalization. The highest bond yields in over 15 years bode well for future fixed income total returns, with investment grade municipal bonds paying out 8% to 10% taxable equivalent yields. Forward earnings estimates have stopped falling and are now rising, with +11% and +12% EPS growth forecasted for 2024 and 2025. Since June, consensus economic forecasts for 3Q23 real GDP growth steadily rose from 0.0% to +4.9%, due to a productivity driven acceleration of economic activity in the U.S., although we expect only +1% GDP growth in 2024. Unemployment rates remain near historic lows, even as inflation declined to 3.7% after peaking at 9.1% in June of 2022. The Fed signaled that its rate hiking cycle is likely finished, and it is especially motivated to avoid a hard landing recession ahead of the 2024 presidential elections. It is too early for the Fed to declare "mission accomplished" on inflation, and Fed Funds rates should stay where they are until they cut rates in mid-2024.

There have been many headlines about the potential for wider escalation of the war in Gaza, but these articles are referring to the U.S. and the Iranian dictatorship and its proxy militia Hezbollah in southern Lebanon i.e., not Russia or China (hence no WWIII, the same as in past Middle East conflicts). Iran's regime will likely be deterred from directly attacking Israel with its own military by America's support of Israel with overwhelming air power and naval forces in the Eastern Mediterranean and the Persian Gulf. Historically, wars in the Middle East have affected the global economy via higher oil prices, but so far oil markets reactions have been modest. The U.S. produces more oil than any other nation and is a net exporter of oil and natural gas, so higher oil prices hurt most foreign economies but not so much for the U.S.

## Asset Class Benchmark Returns in 2023 – Year-to-Date (YTD) and 3rd Quarter

| | | | | |
|---|---|---|---|---|
| YTD: | +13.07% | 3rd Qtr: | -3.27% | U.S. Large Cap Equities: S&P 500 Index |
| YTD: | +10.06% | 3rd Qtr: | -3.40% | Global Equities: MSCI All Country World Index (ACWI) |
| YTD: | +7.08% | 3rd Qtr: | -4.11% | Foreign Developed Equities: MSCI EAFE Index (EAFE) |
| YTD: | +4.34% | 3rd Qtr: | -3.68% | 50/50 Allocation: 50% ACWI / 50% Muni Bond |
| YTD: | +2.54% | 3rd Qtr: | -5.13% | U.S. Small Cap Equities: Russell 2000 Index |
| YTD: | +1.82% | 3rd Qtr: | -2.93% | Emerging Markets Equities: MSCI Emerging Markets Index |
| YTD: | -1.95% | 3rd Qtr: | -7.02% | Real Estate: S&P U.S. REIT Index |
| YTD: | +5.86% | 3rd Qtr: | +0.46% | Junk Bonds: U.S. Aggregate Corporate High Yield Index |
| YTD: | -1.21% | 3rd Qtr: | -3.23% | U.S. Fixed Income: U.S. Aggregate Bond Index (AGG) |
| YTD: | -1.38% | 3rd Qtr: | -3.95% | Municipal Bonds: Bloomberg Barclays Muni Bond Index |

## Our Forecast: 30% Probability of Recession vs. 50% "Soft-ish Landing" vs. 20% No Recession

We estimate a 50% probability of a "growth recession" (i.e. soft-ish landing, per Fed Chair Powell) which is defined as two or more quarters of 0.0% to +1.0% real GDP growth (QoQ% SAAR) and a material increase in unemployment rates, and a 20% probability of no recession (i.e., "soft landing" with no increase in unemployment rates), and a 30% probability of a recession (i.e., "hard landing"). Many investors are divided over whether the Fed can beat inflation without throwing the U.S. into a "hard landing" recession. For a window into the wide range that comprises consensus expectations, last month Goldman Sachs cut their forecasts for a recession (i.e., hard landing) in the next 12 months to a 15% probability, but also noted that Bloomberg's consensus forecast is for a much more pessimistic 60% probability of recession. We increased our recession probability estimate from 25% due to the recent increase in 10-year and 30-year Treasury yields which are further tightening financial conditions.

The bear case asserts that "long and variable lags" of tight monetary policy take time to work through the economy, and they will cause a recession in the next six months, and that everything we are seeing is consistent with the late-cycle phase of the business cycle. The optimistic case is bolstered by low unemployment rates (caused by the retiring generation of baby boomers) and war-time levels of fiscal spending (i.e., $1.7 trillion federal deficit, American Rescue Plan Act, Chips and Science Act, Inflation Reduction Act, and Infrastructure Investment and Jobs Act). In addition, the interest rate-sensitive sectors of homebuilding and automobile manufacturing have not been over-producing, rather they are still recovering from below trend unit production rates due to supply chain problems caused by the pandemic.

**Why Are These Different Paths for the Economy So Important to Investors?**

The Fed wants to durably suppress inflation to avoid a "lost decade" like we experienced in the 1970's. The "growth recession / soft-ish landing" scenario provides the best chance of achieving the Fed's objectives. Perhaps counter-intuitively, the "no recession / soft landing" scenario is problematic because it would likely lead to resurging inflation, which would force the Fed to resume raising Fed Funds rates. The "recession / hard landing" scenario has the best chance of defeating the inflation triggered by the monetary and fiscal responses to the Pandemic Financial Crisis (PFC), however it could also be the catalyst for a new financial crisis (and change the outcome of the 2024 presidential election), which would then force the Fed to end quantitative tightening and go back to quantitative easing (i.e., money printing) and extraordinary asset purchases, and therefore risk a new outbreak of inflation after the inevitable recovery. The Fed has in the past been quietly sanguine about causing recessions and significant job losses i.e., "clearing out the deadwood" has been a colloquial phrase that Federal Reserve bankers would toss around nonchalantly prior to the Great Financial Crisis (GFC) of 2008, but not this time.

**The Fed's Economic Projections for Falling Inflation and Fed Funds Rates Cuts in 2024**

The FOMC September quarterly "dot plot" summary of economic projections signaled the Fed will hike rates one last time and then pause the Fed Funds Rate at 5.75% for an extended period, and then begin cutting Fed Funds Rates in 2024. The rule of thumb is that Fed Funds Rates should be 1% higher than inflation rates to force inflation down. The Fed is now forecasting core personal consumption expenditures (PCE) inflation rate, its preferred measure of inflation, which excludes energy and food, to fall from 3.9% in August 2023 to 3.7% by December 2023 (and Fed Funds Rate of 5.6%), and to 2.6% by December 2024 (and Fed Funds Rate of 5.1%), and then to 2.3% by December 2025 (and Fed Funds Rate of 3.9%), and then to 2.0% by December 2026 (and Fed Funds Rate of 2.9%), and thereafter to the 2.0% target (and Fed Funds Rate of 2.5%) over the longer run. However, bond markets think the Fed is already done hiking at 5.50%, and will be forced to cut rates sooner i.e., fed funds futures are pricing in that the Fed will start cutting rates by mid-2024, and cut to 4.50% by the end of 2024, per Bloomberg <WIRP>. Notably, the ends of Fed Funds Rate hiking cycles have historically been followed by 12-month periods of well above average equity returns, using data from the past 30 years, with the one exception being 5/15/2000.

**Estimates for Corporate Earnings, Revenues, Margins, GDP Growth, Valuations, Interest Rates**

Consensus estimates for S&P 500 EPS growth are +0.9% in 2023 and +11.2% in 2024 and +12.3% in 2025, after growing +7.4% in 2022, per I/B/E/S data by Refinitiv. Year-over-year quarterly EPS estimates are -2.8% in 1Q23, -6.0% in 2Q23, +3.4% in 3Q23, and +5.4% in 4Q23. Thus the 2nd Qtr. was the trough earnings contraction quarter, and the 2023 corporate profits recession has ended.

S&P 500 revenues per share are forecasted to grow +2.2% in 2023 and +4.8% in 2024, after rising +11.5% in 2022. Net profit margins are projected to decline to 12.0% in 2023 from 12.4% in 2022, and then expand to 12.7% in 2024 and 13.6% in 2025, per I/B/E/S data by Refinitiv.

Wall Street's full year consensus forecast for U.S. real GDP is +1.9% in 2022 (actual), +2.3% in 2023, +1.0% in 2024, and +1.8% in 2025, and the quarterly forecasts (QoQ%, SAAR) are +2.2% in 1Q23, +2.1% in 2Q23, +4.9% in 3Q23, +0.8% in 4Q23, +0.3% in 1Q24, +0.6% in 2Q24, +1.3% in 3Q24, +1.7% in 4Q24 per Bloomberg <ECFC>. Average U.S. real GDP growth has been 2.2% over the past decade.

Europe is growing below trend while Japan is growing well above trend. Europe's economy is forecasted (per ECB) to grow +3.6% in 2022 (actual), and +0.7% in 2023 (down from +0.9% in June), and +1.0% in 2024 (down from +1.5% in June), and 1.5% in 2025, vs. its trend rate of +1% real GDP growth. Japan's economy is forecasted (per JCER) to grow +1.2% in 2022 (actual), and +1.8% (up from +1.1% in June) in 2023 (est.), and +0.9% in 2024 (down from +1.1% in June) vs. its trend rate of +½% real GDP growth.

Price/earnings (P/E) multiples are 18.5, *15.6*, 13.2, 12.7, 13.2, and 12.2 for S&P 500 large cap, *S&P 500 large cap excluding tech*, S&P 400 mid cap, S&P 600 small cap, foreign developed, and emerging markets, respectively, where E is EPS on next four quarters (NFQ), per Bloomberg consensus. The long-term average for U.S. large cap NFQ P/E multiples is 15-½. Thus, U.S. large cap equity valuations are 19% above average, however after removing the technology sector valuations are only 1% above average. U.S. mid cap and small cap equity P/E multiples are significantly cheaper than their historical averages.

The Treasury yield curve is currently pricing in Fed Funds Rates to be cut in 0.25% increments from 5.50% currently to 4.50% one year from now, and 10-year Treasury yields of 4.5% one year from now, per Bloomberg <FWCM>. Importantly, the yield curve is priced for 10-year Treasury yields to gradually increase to 4.9% during the next 4 years (which implies no recession). The Treasury yield curve represents the "real money" pricing of many trillions of dollars of U.S. Treasury securities across maturities from 7 days to 30 years, based on bond investors' expectations for the future, which is why it commands the respect of equity investors and the Fed. Of course, the yield curve always reserves the right to change its mind, which it has been doing much more frequently over the past two years.

The yield curve is inverted, with 10-year Treasury yields lower than 2-year Treasury yields by 41 basis points (bps), after a nadir of 106 bps inverted on June $30^{th}$. Yield curve inversions have been a reliable leading indicator of future economic downturns.

High yield bond spreads (over 10-year Treasuries) eased from 466 to 431 basis points, after troughing at 416 bps on September $20^{th}$, indicating that credit markets have priced in a mild economic slowdown (but are not pricing in a recession).

**<u>Pandemic+Ukraine War Exposed Over-Reliance on China and Forced De-Risking of Supply Chains</u>**

China's support for Russia's war on Ukraine and threats against Taiwan have spooked corporations and governments in U.S. and Europe, triggering a new consensus in favor of "de-risking" global supply chains away from communist China. Foreign direct investment into China has "tumbled to its lowest level in 18 years," per Nikkei Asia. Finished goods trucked from new factories built in northern Mexico (instead of China) are filling up new warehouses built in Laredo, Texas (the world's biggest "land port"). Annual spending on construction of new U.S. manufacturing facilities has increased to $193 Billion per year from $80 Billion per year, driven by semiconductors and electric vehicles, which are beneficiaries of targeted federal tax credit deals for mega-corporations (e.g. Intel, Toyota), low-cost electricity compared to Europe, and anti-China tariffs (one thing Democrats and Republicans agree on). These recent trends will persist for years.

**<u>De-Risking Supply Chains Is Good Corporate Strategy for Sophisticated Global Producers</u>**

In <u>Competitive Strategy</u>, Michael Porter of HBS showed that high supplier concentration risk is bad corporate strategy. For example, former German Chancellor Angela Merkel's decisions to sole-source industrial energy supplies to cheap natural gas from Vladimir Putin's Russia (and permanently shut down all nuclear power plants) has now saddled her country's energy intensive factories (BASF, Siemens, BMW, etc.) with electricity costs that are so high that many managers are planning to shut down plants and relocate to other nations. Similarly, many U.S. and European managers have outsourced their manufacturing to communist China because it was cheaper and/or because of environmental regulations.

De-risking (i.e., diversifying) supply chains away from China is good corporate strategy for sophisticated multi-national corporations, and it will lead to higher long-term earnings and share prices for their firms, because they have the resources and expertise to wring out costs and enhance their speed-to-market strategies with innovative technology deployment and global logistics vendor relationships that take advantage of economies of scale. While this might lead to higher prices of certain goods for consumers, it should also lead to more jobs for workers outside of communist China i.e., including North America and Europe, but primarily in other emerging markets nations that do not have nuclear weapons and aircraft carriers. The lowest possible prices for a pair of socks for U.S. consumers should not be the primary governing principle for trade policy.

**<u>What Happens to Your China Growth Strategy When President Xi Revokes Your License to Sell?</u>**

Customer concentration risk can expose a business to great harm, and this is one of the most important lessons of Michael Porter's <u>Competitive Strategy</u>. The Communist Chinese Party (CCP) can capriciously cancel your license to do business in China, leaving owners with no recourse to the law to protect their investments. Many large publicly traded U.S. and European businesses have committed vast sums of money and resources into China in the hopes of selling their products and services to Chinese consumers. Although Starbucks has done well in China so far, they should be mindful of McDonald's fate in Russia. After 30 years of hard work, 10% of global annual revenues for McDonald's came from Russia, until they were forced to sell all their operations for one dollar to Vladimir Putin's cronies after the invasion of Ukraine. They thought they were diversified across millions of customers in Russia, but in fact they only had one customer that mattered i.e., Vladimir Putin. From this perspective, high customer concentration risk is unavoidable for many foreign corporations selling to consumers in communist China.

## Postmortem on FDIC Receiverships for Silicon Valley Bank and First Republic Bank

Back in March, we did not call it a banking crisis in the updates we emailed to clients, because we were confident regulators could handle this episode, and we wanted to convey that assurance to our clients. The critical phase of this episode ended after First Republic Bank was placed into FDIC receivership, to zero out all the bond holders and share owners, and then sold to JP Morgan. As we wrote in our 1st Quarter investment letter, "FDIC receivership for SIVB and SBNY made all their depositors whole, and the Fed created a new lending facility (BTFP) to grant all banks the ability to exchange AAA-rated securities at par value for cash, without recognizing losses on assets classified as held-to-maturity. As a result of these actions the worst of this episode seems to be behind us. From a policy perspective, the FDIC's goal is not to prevent all bank failures, but rather to ensure that individual bank failures do not cause the banking system to fail, without using taxpayer dollars, which was achieved." We believe the banking system is resilient enough to absorb additional failed banks if they are placed into FDIC receivership.

## Review of 3rd Quarter of 2023: Economy Up, Interest Rates Up, Dollar Up, Oil Up, Stocks Down

The S&P 500 index of stocks fell -3.27% in the third quarter of 2023, including dividends, from 4450 to 4288. 10-year Treasury yields rose from 3.84% to 4.57%. West Texas Intermediate (WTI) crude oil prices per barrel increased from $71 to $91. The US dollar currency index strengthened from 102.91 to 106.17, after trading down to 99.77 on July 13th. U.S. unemployment rate rose slightly from 3.6% to 3.7%. The Fed's 5-yr forward breakeven inflation rates rose from 2.29% to 2.48%, after first falling to 2.13% on July 19th.

Real and nominal U.S. economic activity accelerated in the 3rd quarter despite the cumulative weight of 5.25% of Fed Funds Rate hikes over the past 18 months. The U.S. economy ***real*** GDP (QoQ% SAAR) was +4.9% in 3Q23 (est.), +2.1% in 2Q23, +2.1% in 1Q23, +2.6% in 4Q22, +3.2% in 3Q22, -0.6% in 2Q22, and -1.6% in 1Q22. But earnings, revenues, and expenses are all reported in nominal terms, not real terms. The U.S. economy ***nominal*** GDP (QoQ% SAAR) was +8.4% in 3Q23, +6.1% in 2Q23, +8.0% in 1Q23, +9.7% in 4Q22, +11.5% in 3Q22, +8.1% in 2Q22, and +6.4% in 1Q22 (Note: the relevant formula is "Nominal GDP = Real GDP + CPI Inflation Rate").

The Fed's preferred measure of inflation, Core PCE (YoY%), was +3.9% in 3Q23 (est.), +4.6% in 2Q23, +4.8% in 1Q23, +5.1% in 4Q22, +5.0% in 3Q22, and +5.0% in 2Q22. U.S. headline CPI inflation (YoY%) was +3.5% in 3Q23 (est.), +4.0% in 2Q23, +5.8% in 1Q23, +7.1% in 4Q22, +8.3% in 3Q22, +8.7% in 2Q22, and +8.0% in 1Q22. The Fed's target rate of inflation is +2.0%.

## Business and Income Tax Planning Can Result in Significant Tax Savings

Small business owners looking to contribute up to $300,000 per year of pre-tax money into their retirement plans should consider cash balance defined benefit pension plans. Founders launching start-ups with high growth potential can utilize qualified small business stock (QSBS) to exclude from their taxable income a portion of gain on the sale — up to $10 million or 10 times the cost of the investor's basis, whichever amount is greater. QSBS can be "stacked" to multiply the tax savings for a spouse, children, and multiple trusts. Private investors and limited partners can also receive the tax benefits of QSBS. Incentive stock options (ISOs) are typically offered to executives and key employees, with potential tax advantages, and non-qualified stock options (NSOs) can be granted to any employee, as well as to consultants and board members. For clients with very significant wealth and liquidity, they can use PPLI to place large sums of money in domestic entities that grow free of any taxation while maintaining access to liquidity. The US code contains various tax benefits to incentivize entrepreneurs to start and grow businesses, and we help make sure our clients don't miss out on them, so they can focus on building great businesses.

**Estate Tax Law Changes in 2026 Will Cause Some Wealthier and Older Individuals to Revise Plans**

We at Salem Partners Wealth Management try to make sure that we are planning well ahead of any potential tax or regulatory changes in order that our clients can be ready for new environments. One such significant change on the horizon is a reduction in the amount of money that individuals can give away during their lifetimes, or pass along upon death, free of estate or gift tax. This amount gets cut in half starting on January 1, 2026. We encourage clients to start understanding whether they may want to address these changes in their current estate plan in anticipation of this change in the laws. We can send a summary of the change in the laws and potential strategies to take advantage of current laws that has been prepared by Andy Katzenstein at Proskauer Rose if you send us an email.

In 2025, an individual will be able to pass along an estimated $14.4 million free of estate or gift tax during their lifetime or as part of their estate. In 2026, that amount will be cut in half. That means a couple which today could pass along $28.8 million to their children or grandchildren tax free can only pass along half of that tax free in 2026.

The most obvious clients who may want to think about doing something to take advantage of current laws would be those who are older (70+) and with an estate valued comfortably over the limit in 2026 ($7.2 million for an individual and $14.4 million for a couple) and a clear beneficiary. Clients that check the net worth box but are younger may also want to consider strategies that take advantage of the laws but leave access to the capital in the hands of the donor during the donor's lifetime.

As always, we are happy to discuss considerations regarding your estate plan at your convenience. We understand that the implications of these and other estate plan issues are complex and want to support you to the greatest extent possible. We also want to make sure that our clients who do want to address the changes can do so before the crush of planning that is likely to occur in 2025.

**Proven and Repeatable Processes: Portfolio Rebalancing, Tax Loss Harvesting, and Tax Deferral**

Portfolio rebalancing is a useful tool for long-term investors because it serves two important purposes. First and foremost, it keeps asset allocations in line with targets that have been codified in clients' investment policy statements (IPS). Second, it can be a mechanism to naturally "buy low, sell high", because it involves adding to an asset class that has decreased in price (e.g., >10%) relative to the overall portfolio, and cutting back an asset class that has increased in price relative to the overall portfolio. Good judgement, disciplined decision-making, and operational excellence are necessary to obtain the best results for every client from portfolio rebalancing.

Another proven methodology for long-term investors to take advantage of market volatility is tax loss harvesting. Unlike tax loss selling, tax loss harvesting precludes adverse impacts to investment returns, by simultaneously replacing the sold securities with very similar securities, while avoiding IRS wash sale rule violations. We actively implement tax loss harvesting throughout the year whenever material market declines create opportunities.

Tax losses provide economic value because investors can use them to offset capital gains tax, and unused tax losses can be carried forward into future years until they are fully used. The maximum federal tax rate on short-term capital gains is 40.8%, including the 3.8% net investment income tax, and for Californians the maximum combined state and federal tax rate is 54.1%. Although no one likes down markets, tax loss harvesting can effectively reduce negative returns by up to 54.1%, without sacrificing full participation in the inevitable market recovery for long-term investors.

Tax deferral strategies involve delay or avoidance of realization of capital gains through judicious planning and portfolio management. Unrealized capital gains can be permanently eliminated over time with prudent trust & estate planning, via step up in cost basis when wealth transfers from one generation to the next.

## Risk Management

Asset allocations should be based on well-designed investment policy statements to enable investors to get through bear markets without selling equities, by using fixed income or cash to draw upon until stock markets have recovered, which is common sense short-term risk management. However, comprehensive risk management should also account for the long-term shortfall risk of not achieving long-term portfolio growth objectives due to sub-optimal asset allocations and portfolio construction. Along the way, contingency risks (i.e., low probability and high impact) need to be efficiently managed with various tools including adequate liquidity, appropriate insurance protection (note: we do not sell insurance), coordination with clients' trusts & estate attorneys, and proactive tax planning with clients and their CPAs.

## Long-Term Investing

To paraphrase Warren Buffett, successful investors need to invest for the long-term and avoid being swayed by the fear and greed of others that can cause irrational swings in the market. We do not let the daily noise and volatility of the markets deter us from our mission to be faithful stewards of our clients' capital. As long-term investors, we and our clients have committed ourselves to adhere to well-defined investment policy statements, which have been custom-built for each individual client, to achieve their long-term investment objectives, while accepting the inevitable price fluctuations of the public markets.

As fiduciaries, we relentlessly seek out the lowest costs and best terms for our clients. As trusted advisors, long-term relationships are of primary importance to helping our clients achieve successful outcomes through personalized financial planning and disciplined implementation.

## Conclusions

+13% equity returns year-to-date in U.S. large caps were driven by improving earnings prospects for the highly profitable technology companies, which constitute over 27% of the index. The highest bond yields in over 15 years bode well for future fixed income total returns, with investment grade municipal bonds paying out 8% to 10% taxable equivalent yields. Forward earnings estimates have stopped falling and are now rising, with +11% and +12% EPS growth forecasted for 2024 and 2025. Since June, consensus economic forecasts for 3Q23 real GDP growth steadily rose from 0.0% to +4.9%, due to a productivity driven acceleration of economic activity in the U.S., although we expect only +1% GDP growth in 2024. Unemployment rates remain near historic lows, even as inflation declined to 3.7% in September 2023 after peaking at 9.1% in June 2022. The Fed signaled that its rate hiking cycle is likely finished, and it is

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highly motivated to avoid a hard landing recession ahead of the 2024 presidential elections. It is too early for the Fed to declare "mission accomplished" on inflation, and Fed Funds rates should stay where they are until the first cuts in mid-2024.

We estimate a 30% probability of a recession / hard landing, 50% probability of a growth recession / "soft-ish" landing, and 20% probability of no recession / soft landing. U.S. large cap equity P/E multiples *excluding technology* are now in line with their historical averages, and U.S. mid cap and small cap P/E multiples look compellingly cheaper than their historical averages. Notably, the ends of Fed Funds Rate hiking cycles have historically been followed by 12-month periods of well above average equity returns, using data from the past 30 years, with the exception being 5/15/2000.

We wish all our clients and friends a safe and more peaceful autumn. We will keep working hard to generate superior long-term after-tax investment returns for each of our clients with personalized financial planning and customized portfolios, and we are grateful for the trust and confidence our clients have placed in us.

Please let us know if you have any questions. Thanks!

Best Regards, Erik

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• Fiduciary and fee-only registered investment adviser firm always, established 2004
• Institutional investment management expertise combined with personalized financial planning and customized portfolios to drive superior long-term after-tax outcomes
• Assets under management custodied at Charles Schwab ($7.8 Trillion in client assets across 34 million customer accounts) in segregated accounts under clients' names
• Welcoming new clients with over $10 million to invest with us

***Selected to Los Angeles Business Journal's List of Leaders of Influence: Wealth Managers in 2023, 2022, 2021, 2020, 2019 (see website)***

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## Disclosures

- **Past performance is not a guarantee of future results. Investments can lose money.**
- This analysis is not a guarantee, prediction, or projection of any particular result and your actual results may vary materially from those presented herein.
- Total return is the industry standard and our method of measuring investment performance in client reports. Total return is the investment income received or accrued plus the change in market value over a specified period divided by the market value at the beginning of the period.
- All total account performance returns in client reports are time-weighted total returns, displayed as net of all fees.
- Recognizing that past performance does not guarantee future results and that indices differ from actual portfolios, the data presented are based on the historical performance of their respective asset classes. When necessary, indices are used as proxies for the asset classes. The indices are not managed, not subject to fees nor transaction costs, nor available for direct investment. In certain instances, assumed rates of return or inflation are incorporated as part of the presentation. However, there is no guarantee that these assumptions will be realized in the future, and they shall not be deemed as a guarantee of future results.
- Investment returns portrayed are subject to the effect of material market or economic conditions during the specified time periods.
- Investment returns of indexes reflect the reinvestment of dividends and interest income.
- Investment returns of indexes do not reflect the effect of any fees or expenses since they do not ever pay any fees or expenses. You cannot invest directly in an index.
- Investments portrayed can generate profits, but they can also incur losses.
- Equity (stocks), fixed income (bonds), and other investments do not always gain or lose value at the same time. Historically, volatility has been reduced over time by holding multiple non-correlated asset classes in a portfolio.
- Diversification within an asset class is important because it can eliminate idiosyncratic (i.e., individual security) risk within an asset class, but it cannot eliminate systemic (i.e., market) risk of an asset class. No investment strategy or allocation can eliminate risk or guarantee investment returns.
- Although single-asset class diversification is an important tool in the toolbox of investing, relying on it alone might cause an investor to forego the benefits of other non-correlated asset classes that may help them achieve their long-term goals. Asset allocation differs from single-asset class diversification because it involves being diversified across multiple diversifying asset classes.
- Assets are broken out by market cap and style using data supplied from S&P, MSCI, Bloomberg, Morningstar, Inc. and other sources.
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