SALEM PARTNERS
WEALTH MANAGEMENT

1st Quarter 2024 Investment Letter by Erik Ridgley, CFA
CEO & Chief Investment Officer of Salem Partners Wealth Management March 31, 2024

We wish all our clients and friends a splendid spring. Below we provide our investment outlook for the balance of 2024 and a review of markets in the 1st quarter of 2024 (1Q24). We were especially pleased by +10.6% total returns in 1Q24 for U.S. large cap equities. S&P 500 earnings growth consensus forecasts are +9.7% for 2024 and +13.6% for 2025, and unemployment rates of 3.9% remain near historic lows. The highest interest rates in over 15 years should bode well for future fixed income total returns, with investment grade municipal bonds paying up to 4.6% tax-exempt yields. Unfortunately, federal debt as a percentage of GDP is now 121% vs. 60% from 1991 to 2007 and 40% from 1965 to 1985. Voters don't care about this in 2024, and neither do investors, but in the next decade this could become an important issue for both. CPI inflation plummeted to 3.2% in February from 9.1% in June of 2022, which allowed the Fed to reiterate on March 20th that its rate hiking cycle is over, although it is still too early for Powell to declare "mission accomplished" on inflation. Fed Funds rates will stay at 5.50% until the Fed starts cutting rates, most likely on June 12th. The Fed wants to avoid a recession ahead of the 2024 presidential elections (which will be excruciatingly close in the six key swing states of MI, WI, PA, NC, GA, and AZ), so "don't fight the Fed" means don't bet on a hard landing in 2024.

Asset Class Benchmark Returns – 2023 and 1st Quarter 2024 (1Q24)

2023	1Q24	Asset Class
2023: +26.29%	1Q24: +10.55%	U.S. Large Cap Equities: S&P 500 Index
2023: +22.20%	1Q24: +8.20%	Global Equities: MSCI All Country World Index (ACWI)
2023: +18.24%	1Q24: +5.78%	Foreign Developed Equities: MSCI EAFE Index (EAFE)
2023: +14.30%	1Q24: +3.90%	50/50 Allocation: 50% ACWI / 50% Muni Bond
2023: +16.93%	1Q24: +5.18%	U.S. Small Cap Equities: Russell 2000 Index
2023: +9.83%	1Q24: +2.37%	Emerging Markets Equities: MSCI Emerging Markets Index
2023: +13.77%	1Q24: -0.36%	Real Estate: S&P U.S. REIT Index
2023: +13.44%	1Q24: +1.47%	Junk Bonds: U.S. Aggregate Corporate High Yield Index
2023: +5.53%	1Q24: -0.78%	U.S. Fixed Income: U.S. Aggregate Bond Index (AGG)
2023: +6.40%	1Q24: -0.39%	Municipal Bonds: Bloomberg Barclays Muni Bond Index
2023: +5.14%	1Q24: +1.32%	Cash: U.S. T-Bills (1-3 Months) Bloomberg Index

Why Software Is Eating the World

In 2011, a venture capitalist named Marc Andreessen presciently wrote an essay, "Why Software Is Eating the World," and he cited the cost of running a basic Internet application which had fallen to $1,500 per month from $150,000 per month in 2000. (That was a rapidly declining cost curve!) I was reminded of this when a software CEO recently told me his software developers were 40% more productive at writing software code when using newly available artificial intelligence (A.I.) software tools. Last month, the CEO of Nvidia predicted that $1 Trillion dollars will be spent over the next 4-5 years building data centers for A.I., which would double the worldwide installed base of "cloud computing" facilities (approximately 11,000 data centers x 100,000 square feet per data center x $910 cost per square foot). That is a lot of new demand for technology hardware and software, as well as for building construction, electricity, land, capital, etc. This new demand is helping to drive earnings growth and stock market valuations.

American Oil & Gas Exports Growth Helped Contain Global Energy Prices and Lowered Inflation

Tragically, the wars in Ukraine and the Gaza strip rage on. This would normally impact the global economy via higher oil prices, but oil markets reactions have been modest, partly due to the weak economic recovery in China from the Covid-19 pandemic. Fortunately, America now produces more oil than any other nation (13.2 million barrels per day in October 2023 was a new record), and it has been a net exporter of oil (4 million barrels per day) and natural gas (20.4 billion cubic feet per day) ever since 2019 and 2017, respectively. Over the past two years, U.S. energy companies have profitably increased crude oil production levels by 800,000 barrels per day in response to higher prices for oil and natural gas. Higher oil and natural gas prices are a drag on the economies of most foreign developed countries, but not so much for the aggregate U.S. economy. The biggest risk in 2024 from higher oil prices would be a resurgence in headline inflation rates, which could force the Fed to delay cutting Fed Funds rates.

U.S. and Europe Are "De-Risking" Their Supply Chains from China in U-Turn from Past 20 Years

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. 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 U.S. trade policy.

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.

Our Forecast: 15% Probability of Recession vs. 60% "Soft-ish Landing" vs. 25% "No Landing"

We estimate a 15% probability of a recession (i.e., "hard landing"), a 60% 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 25% probability of no recession (i.e., "soft landing" or "no landing" with no increase in unemployment rates). Economists have been divided over whether the Fed can defeat inflation without throwing the U.S. into a "hard landing" recession. We lowered our recession probability estimate from 20% last quarter due to the anticipation of loosening/easier financial conditions. The bearish case is 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 bullish 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).

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) of 2020, 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 Updated Economic Projections for Falling Inflation and Fed Funds Rates Cuts in 2024

The FOMC March quarterly "dot plot" summary of economic projections signaled the Fed will not hike rates further and instead it will pause the Fed Funds Rate at 5.50% for an extended period, and then begin cutting Fed Funds Rates in mid-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 2.6% by December 2024 (and Fed Funds Rate of 4.6%), and then to 2.2% by December 2025 (and Fed Funds Rate of 3.9%), and then to 2.0% by December 2026 (and Fed Funds Rate of 3.1%), and thereafter to the 2.0% target (and Fed Funds Rate of 2.6%) over the longer run. Bond market investors no longer believe the Fed will need to cut rates sooner than that i.e., fed funds futures pricing implies the Fed will start cutting rates on 6/12/2024, and cut to 4.75% 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. The Fed is also forecasting stable U.S. real GDP growth of 2.0% and low unemployment rates of 4.0% for 2024-2026.

Updated Estimates for Earnings, Revenues, Margins, GDP Growth, Valuations, Interest Rates

Consensus estimates for S&P 500 EPS growth are +1.5% in 2023, +9.7% in 2024, and +13.6% in 2025, per I/B/E/S data by Refinitiv (now LSEG). Year-over-year quarterly EPS actuals were -3.2% in 1Q23, and -6.3% in 2Q23, then +4.2% in 3Q23, then +7.4% in 4Q23 (up from estimates of +2.9%), and estimates of +3.5% in 1Q24, +9.0% in 2Q24, +8.7% in 3Q24, and +14.2% in 4Q24. Thus, the 4Q22 to 2Q23 corporate profits recession has ended.

S&P 500 revenues per share are forecasted to grow +2.2% in 2023, +4.8% in 2024, and +5.9% in 2025. Net profit margins are projected to expand from +11.8% in 2023 to 13.2% in 2024 and 13.7% in 2025, per I/B/E/S data by Refinitiv.

Wall Street's full year consensus forecast for U.S. real GDP is +2.5% in 2023, +2.2% in 2024 (up from +1.3% in Jan), and +1.7% in 2025, and the quarterly consensus forecasts (QoQ%, SAAR) are +2.2% in

1Q23, +2.1% in 2Q23, +4.9% in 3Q23 (est.), +3.2% in 4Q23 (up from +1.2% in Jan.) (act.), +2.0% in 1Q24, +1.4% in 2Q24, +1.2% in 3Q24, +1.5% in 4Q24 per Bloomberg <ECFC>. Average U.S. real GDP growth has been 2.2% over the past decade. Like 2023, we continue to think U.S. GDP will be stronger than consensus forecasts.

Europe is growing below trend while Japan is growing above trend. Europe's economy is forecasted (per ECB) to grow +0.5% in 2023 (down from +0.6% in Dec.), and +0.6% in 2024 (down from +0.8% in Dec.), +1.5% in 2025, and +1.6% in 2026, vs. its trend rate of +1.0% real GDP growth. Japan's economy is forecasted (per JCER) to grow +1.3% (down from +1.5% in Dec.) in 2023, and +0.7% in 2024 (down from +0.9% in Dec.), and +1.0% in 2025 vs. its trend rate of +0.5% real GDP growth.

Price/earnings (P/E) multiples are 21.6 for S&P 500 large cap, *18.4 for S&P 500 large cap excluding tech*, 16.4 for S&P 400 mid cap, 14.7 for S&P 600 small cap, 15.0 for foreign developed, and 12.5 for emerging markets, 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 39% above average, and after removing the technology sector valuations are 19% above average. U.S. 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 4.2% one year from now, per Bloomberg <FWCM>. Importantly, the yield curve is also priced for 10-year Treasury yields to gradually increase to 4.5% during the next 5 years (which assumes/implies no recessions). 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 three years.

The yield curve has been inverted since July 2022, with 10-year Treasury yields lower than 2-year Treasury yields by 42 basis points (bps), after a nadir of 106 bps inverted on June 30th, 2023. Yield curve inversions have historically been reliable leading indicators of future economic downturns, but not this time.

High yield bond spreads (over 10-year Treasuries) tightened from 371 basis points (bps) to 346 bps, after peaking at 466 bps on November 1st, indicating that credit markets have priced in a soft landing (i.e., not a recession).

<u>Review of 1st Quarter of 2024: Strong U.S. Economy Delays Fed Rate Cuts, i.e. Similar to 2023</u>

The S&P 500 index of stocks rose +10.55% in the first quarter of 2024, including dividends, from 4,770 to 5,254. 10-year Treasury yields rose from 3.88% to 4.20. West Texas Intermediate (WTI) crude oil prices per barrel rose from $72 to $83. The US dollar currency index strengthened from 101.33 to 104.49. U.S. unemployment rate rose slightly from 3.8% to 3.9%. The Fed's 5-yr forward breakeven inflation rates rose from 2.17% to 2.26%.

Both Real and Nominal U.S. economic activity decelerated in the 4th quarter due to the lagged cumulative weight of 5.25% of Fed Funds Rate hikes over the past 21 months. The U.S. economy ***<u>real</u>*** GDP (QoQ%

SAAR) was +2.0% in 1Q24 (est.), +3.2% in 4Q23 (act.), +4.9% in 3Q23, +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 +5.2% in 1Q24 (est.), +6.4% in 4Q23 (act.), +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%), is +2.7% in 1Q24 (est.), +3.2% in 4Q23 (act.), +3.8% in 3Q23, +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%) is +3.2% in 1Q24 (est.), +3.2% in 4Q23 (act.), +3.5% in 3Q23, +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%.

"Stick to the Plan" was Our Advice to Clients During the Silicon Valley Bank Run

Back in March 2023, 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.

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.

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.

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.

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

2024 should see a continuation of the economic trends and earnings narratives that dominated much of 2023, which was an excellent year for investors with the discipline and fortitude to stick to their plans. We were especially pleased by +10.6% total returns in 1Q24 for U.S. large cap equities. S&P 500 earnings growth consensus forecasts are +9.7% for 2024 and +13.6% for 2025, and unemployment rates of 3.9% remain near historic lows. The highest bond yields in over 15 years should bode well for future fixed income total returns, with investment grade municipal bonds paying up to 4.6% tax-exempt yields.

Unfortunately, federal debt as a percentage of GDP is now 121% vs. 60% from 1991 to 2007 and 40% from 1965 to 1985. Voters don't care about this in 2024, and neither do investors, but in the next decade this could become an important issue for both.

CPI inflation plummeted to 3.2% in February from 9.1% in June of 2022, which allowed the Fed to reiterate on March 20th that its rate hiking cycle is over, although it is still too early for Powell to declare "mission accomplished" on inflation. Fed Funds rates will stay at 5.50% until the Fed starts cutting rates, most likely on June 12th. The Fed wants to avoid a recession ahead of the 2024 presidential elections, so "don't fight the Fed" means don't bet on a hard landing in 2024.

We forecast a below average 15% probability of a recession / hard landing, 60% probability of a growth recession / "soft-ish" landing, and 25% probability of no recession / soft landing, for 2024. U.S. large cap equity P/E multiples *excluding technology* are 19% above their historical averages, however U.S. small cap P/E multiples are 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.

We wish all our clients and friends a spectacular spring. 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 registered investment adviser (RIA) founded in 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.
- This presentation does not constitute an offer to sell or a solicitation to buy any securities or an offer of any investment advisory services.
- Please see our website at www.SalemPartners.com/Wealth-Management and our Form ADV, Form ADV 2, and Form ADV 3/CRS at www.sec.gov for additional disclosures.

IMPORTANT:
The projections or other information shown in this presentation regarding the likelihood of various investment outcomes are based on publicly available information, or our opinions, and are not guarantees of future results.