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2nd Quarter 2024 Investment Letter by Erik Ridgley, CFA
CEO & Chief Investment Officer of Salem Partners Wealth Management July 11, 2024

We hope you have been staying cool amidst the heat waves. Our investment outlook for the balance of 2024 and a review of markets in the 2nd quarter of 2024 (2Q24) is below. +15.3% total returns year-to-date (YTD) in 2024 for U.S. large cap equities nearly matched the first half of last year, S&P 500 earnings growth consensus forecasts are +10.6% for 2024 and +14.1% for 2025, the unemployment rate of 4.0% remains near the 1-yr low of 3.6%, and the U.S. economy continues to outperform expectations. Unsurprisingly, the highest interest rates in over 15 years are causing problems for heavily indebted businesses and households. Federal debt as a percentage of GDP is rising and is now 123% vs. 60% from 1991 to 2007, but investors in our markets and the dollar don't care about this yet, and neither do voters, all of which we discuss further in this letter below. Investment grade municipal bonds are paying up to 4.6% tax-exempt yields, which is equivalent, after-tax, to corporate bond yields of 10.0%, assuming the highest marginal federal and state tax rates. CPI inflation has been wrestled down to 3.0% last month from the peak of 9.1% in June of 2022, allowing the Fed to reiterate no more rate hikes, but it's too early for Powell to declare "mission accomplished" on inflation. Fed Funds rates will stay at 5.50% until the Fed starts cutting rates on September 18th, per fed funds futures.

Asset Class Benchmark Returns – Year-to-Date 2024 (YTD) and 2nd Quarter 2024 (2Q24)

YTD:	+15.29%	2Q24:	+4.28%	U.S. Large Cap Equities: S&P 500 Index
YTD:	+11.30%	2Q24:	+2.87%	Global Equities: MSCI All Country World Index (ACWI)
YTD:	+5.34%	2Q24:	-0.42%	Foreign Developed Equities: MSCI EAFE Index (EAFE)
YTD:	+5.45%	2Q24:	+1.42%	50/50 Allocation: 50% ACWI / 50% Muni Bond
YTD:	+1.73%	2Q24:	-3.28%	U.S. Small Cap Equities: Russell 2000 Index
YTD:	+7.49%	2Q24:	+5.00%	Emerging Markets Equities: MSCI Emerging Markets Index
YTD:	-0.35%	2Q24:	+0.01%	Real Estate: S&P U.S. REIT Index
YTD:	+2.58%	2Q24:	+1.09%	Junk Bonds: U.S. Aggregate Corporate High Yield Index
YTD:	-0.71%	2Q24:	+0.07%	U.S. Fixed Income: U.S. Aggregate Bond Index (AGG)
YTD:	-0.40%	2Q24:	-0.02%	Municipal Bonds: Bloomberg Barclays Muni Bond Index
YTD:	+2.68%	2Q24:	+1.34%	Cash: U.S. T-Bills (1-3 Months) Bloomberg Index

Why Stock Markets Climb the Wall of Worry

With so many things going wrong in the world, the question "why are stock markets ignoring all this bad news?" can be answered with the old market saying that "stock markets climb the wall of worry," which is a reference to the many historical examples of rising stock markets during periods when headlines were dominated by wars, political strife, and social unrest. The next logical question is, "how can this be?" To drive home the point, it is because share prices are driven by 1. earnings, 2. earnings, 3. earnings…and interest rates. Although the current year's earnings receive the most attention, earnings from future years are responsible for over 90% of the valuations of publicly traded share prices. Lower expected interest rates cause share prices to be higher, all else being equal.

For the purposes of visualization, think of all the headlines you read, all the economic statistics reported each week, all the consumer trends and anecdotal observations, all of them go into the top of a big funnel and out of the bottom of the funnel comes corporate earnings. Our economy is big and complicated, and it is constantly evolving in reaction to technological innovations, regulations, tax policies, labor force inputs, customer behaviors, foreign currency exchange rates, etc. We track the most relevant economic statistics for equities and fixed income markets and update them each quarter in our investment letters. The numbers that we care about the most for stock markets are the forecasts for earnings of the largest U.S. corporations as represented by the S&P 500 Index.

Why Is the Path of The Fed's Inflation Fight So Important?

The Fed wants to durably suppress inflation to avoid a "lost decade" like we experienced in the 1970's. The "soft-ish landing" scenario provides the best chance of achieving the Fed's dual mandate objectives. Counter-intuitively, the "no recession / no 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 alter 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 no longer.

Why Don't Investors Care About the U.S. Government Debt (Yet)?

Unfortunately, federal debt as a percentage of U.S. GDP is rising and is now 123% vs. 60% from 1991 to 2007 and 40% from 1965 to 1985. Investors have been warned for decades about the dangers of unsustainable increases in U.S. government debt to GDP ratios, without suffering any noticeable consequences, so they have learned to live with them. Investors understand that eventually there will be a day of reckoning if current trends persist, but they have also rationalized that the day of reckoning is far enough away to continue with "business as usual" for now. Voters on both sides of the political spectrum seem to have adopted the same approach, and their politicians have taken notice, with neither presidential candidate advocating for less government borrowing, because that would mean less government spending (D) or less tax cuts (R).

Why Don't Voters Care About the U.S. Government Debt (Yet)?

As recently as 2022, the interest rates on Treasury bills were almost 0%, same as they were from 2009 to 2015, so voters may have simply forgotten about all the painful trade-offs in federal budget negotiations from paying normal interest rates on the government debt. The current interest rates of 5.3% for 1-month Treasury bills will cause interest payments on the federal debt in 2024 to make up 13% of all federal spending and exceed defense spending. To make matters worse, the U.S. government debt of $35 trillion does not include the estimated $73 trillion of unfunded liabilities of Medicare and Social Security. Nevertheless, if voters for both major political parties keep voting for more government borrowing, their elected representatives will be happy to oblige them.

<u>Why Is the U.S. Dollar the Primary Global Reserve Currency?</u>

The dollar has been the primary global reserve currency since the end of World War II and is the most widely used currency for international trade and commodities transactions. The International Monetary Fund recognizes eight major reserve currencies, of which the U.S. dollar is the most commonly held, making up 59% of official global foreign exchange reserves, followed by the euro at 20%, the Japanese yen at 6%, the British pound sterling at 5%, the Chinese renmimbi at 3%, the Canadian dollar at 2½%, the Australian dollar at 2%, and the Swiss franc at less than ½%.

Factors that contribute to the dollar's dominance include the size of the U.S. economy and the United States' geopolitical strength. In addition, no other country has a market for its debt akin to the $27 trillion U.S. treasuries market. Most countries want to hold their reserves in a currency with large and open financial markets, since they want to be sure that they can access their reserves in a moment of need. Central banks often hold currency in the form of government bonds, such as U.S. treasuries. The U.S. treasuries market remains by far the world's largest and most liquid bond market. It's hard to compete with the U.S. dollar if you don't have a bond market equivalent to the U.S. treasuries market. Thus, the U.S. dollar will continue to be the primary global reserve currency for governments, businesses, and investors for the foreseeable future, because it is better suited for this role than any other reserve currency.

<u>What Is a Reserve Currency?</u>

A reserve currency is a foreign currency that a central bank or treasury holds as part of its country's formal foreign exchange reserves. Countries hold reserve currencies for a number of reasons, including to weather economic shocks, pay for imports, service debts, and moderate the value of their own currencies. Many countries cannot borrow money or pay for foreign goods in their own currencies, and therefore they need to hold reserve currencies to ensure a steady supply of imports during a crisis or assure creditors that debt payments denominated in foreign currencies can be made.

<u>Updated Estimates for Earnings, Revenues, Margins, GDP Growth, Valuations, Interest Rates</u>

Consensus estimates for S&P 500 EPS growth are +10.6% in 2024, +14.1% in 2025, and +13.1% in 2026 per I/B/E/S data by Refinitiv (now LSEG). Year-over-year quarterly EPS actuals were -1.5% in 4Q22, -3.1% in 1Q23, -5.8% in 2Q23, +4.3% in 3Q23, +7.5% in 4Q23, +6.8% in 1Q24, and estimates of +9.5% in 2Q24, +8.7% in 3Q24, and +14.3% in 4Q24. Thus, the 4Q22 to 2Q23 corporate profits recession ended a year ago.

Consensus estimates for S&P 500 revenues per share are forecasted to grow +6.8% in 2023, +1.3% in 2024, +6.0% in 2025, and +5.6% in 2026. Consensus estimates for net profit margins are projected to expand from +11.9% in 2023 to 12.6% in 2024, 13.7% in 2025, and 14.5% in 2026, 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, +2.3% in 2024 (up from +1.3% in Jan), +1.8% in 2025, and +2.0% in 2026, and the quarterly consensus forecasts (QoQ%, SAAR) are +2.2% in 1Q23, +2.1% in 2Q23, +4.9% in 3Q23, +3.4% in 4Q23 (up from +1.2% in Jan.), +1.4% in 1Q24, +2.0% in 2Q24 (est.), +1.6% in 3Q24, +1.6% in 4Q24 per Bloomberg <ECFC>. Average U.S. real GDP growth has been 2.2% over the past decade. Like we did throughout 2023, we continue to think U.S. real GDP quarterly reports will come in stronger than consensus forecasts.

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Europe and Japan are both growing near their trend rates in 2024, with forecasts to accelerate growth in 2025. Europe's economy is forecasted (per ECB) to grow +0.6% in 2023, and +0.9% in 2024, +1.4% 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% in 2023, and +0.6% in 2024 (down from +0.9% in Dec.), +1.1% in 2025, and +0.9% in 2026, vs. its trend rate of +0.5% real GDP growth.

Price/earnings (P/E) multiples are 19.8 for S&P 500 large cap, *16.4 for S&P 500 large cap excluding tech*, 14.0 for S&P 400 mid cap, 12.6 for S&P 600 small cap, 13.7 for foreign developed, and 11.4 for emerging markets, where E is EPS for 2025 i.e., "next year's earnings", per Bloomberg consensus. The long-term average for U.S. large cap next four quarters P/E multiples is approximately 15-½. Thus, U.S. large cap equity valuations are 28% above average, and after removing the technology sector valuations are 6% 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 4.25% 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 4.6% during the next 5 years (assuming 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 31 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, so far. Inverted yield curves have (in the past) dis-incentivized banks from lending to corporate borrowers, but private credit funds have partially replaced commercial banks as sources of capital.

High yield bond spreads (over 10-year Treasuries) widened from 346 basis points (bps) to 351 bps, after jumping to 378 bps on April 18th, indicating that credit markets continue to price in a soft landing (i.e., not a recession).

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

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. 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 in part 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).

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

The FOMC June 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 late-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, of 2.8% by December 2024 (and Fed Funds Rate of 5.1%), and then 2.3% by December 2025 (and Fed Funds Rate of 4.1%), and then 2.0% by December 2026 (and Fed Funds Rate of 3.1%), and 2.0% in the longer run (and Fed Funds Rate of 2.8%). Bond market investors agree with the Fed i.e., fed funds futures pricing implies the first Fed Funds Rate cut will occur in September, with the second cut in December, per Bloomberg <WIRP>. Notably, the ends of Fed Funds Rate hiking cycles (this one ended 7/26/2023) 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 4.1% for 2024-2026.

Review of 2nd Quarter of 2024: Strong U.S. Economy Delays Fed Rate Cuts, i.e. Similar to 2023

The S&P 500 index of stocks rose +4.28% including dividends in the second quarter of 2024, from 5,254 to 5,460. 10-year Treasury yields rose from 4.20% to 4.40%. West Texas Intermediate (WTI) crude oil prices per barrel fell from $83.17 to $81.54. The US dollar currency index strengthened from 104.49 to 105.87. U.S. unemployment rate rose slightly from 3.9% to 4.0%. The Fed's 5-year/5-year forward inflation expectation rate rose from 2.26% to 2.30%, after jumping to 2.42% in late April, per Bloomberg <T5YIFR Index>.

Both Real and Nominal U.S. economic activity *accelerated* in the 2nd quarter, after slowing at the beginning of the year due to the lagged cumulative weight of 5.25% of Fed Funds Rate hikes over the past 27 months. The U.S. economy ***real*** GDP (QoQ% SAAR) was +2.0% in 2Q24 (est.), +1.4% in 1Q24 (act.), +3.4% in 4Q23, +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 +5.3% in 2Q24 (est.), +4.7% in 1Q24 (act.), +6.4% in 4Q23, +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 +2.7% in 2Q24 (est.), +2.9% (up from +2.7% estimate in March) in 1Q24 (act.), +3.2% in 4Q23, +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%) was +3.3% in 2Q24 (est.), +3.3% in 1Q24 (act.), +3.2% in 4Q23, +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 for both measures of inflation is +2.0%.

Taxes Are Your Biggest Investment Expense Item

For wealthy investors, taxes often represent the most significant expense item, overshadowing other costs like management fees or transaction charges. This stems from the various forms of taxes they encounter, including capital gains tax, income tax on dividends and interest, and estate taxes. Capital gains taxes, in particular, can be substantial due to the large profits generated from investments. Additionally, high-income brackets face progressive tax rates, leading to a higher percentage of their earnings being taxed. Strategic tax planning and the utilization of tax-efficient investment vehicles and portfolio management methodologies become crucial for wealthy investors to mitigate their overall tax burden and optimize their net returns.

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 private placement life insurance (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 pleased by the +15.3% total returns year-to-date (YTD) in 2024 for U.S. large cap equities. S&P 500 earnings growth consensus forecasts are +10.6% for 2024 and +14.1% for 2025, and the unemployment rate of 4.0% remains near the 1-year low of 3.6%. Investment grade municipal bonds are paying up to 4.6% tax-exempt yields, which is equivalent, after-tax, to corporate bond yields of 10.0%, assuming the highest marginal federal and state tax rates. Unfortunately, federal debt as a percentage of GDP is now 123% and rising, but investors and voters don't care about this yet.

CPI inflation has been wrestled down to 3.0% last month from the peak of 9.1% in June of 2022, allowing the Fed to reiterate no more rate hikes, although it is still too early for Fed Chair Jerome Powell to declare "mission accomplished" on inflation. Fed Funds rates will stay at 5.50% until the Fed starts cutting rates on September 18th, per fed funds futures.

We forecast a below average 15% probability of a recession, 60% probability of a "soft-ish" landing, and 25% probability of no landing, for 2024. U.S. large cap equity P/E multiples *excluding technology* are 6% above their historical averages, however U.S. small cap P/E multiples are compellingly cheaper than their historical averages.

We wish all our clients and friends a relaxing summer. 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.

Best Regards, Erik

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- Fiduciary registered investment adviser (RIA) founded in 2004
- Personalized financial planning and customized portfolios combined with institutional investment management expertise 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 for disclosures)

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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.
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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.

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