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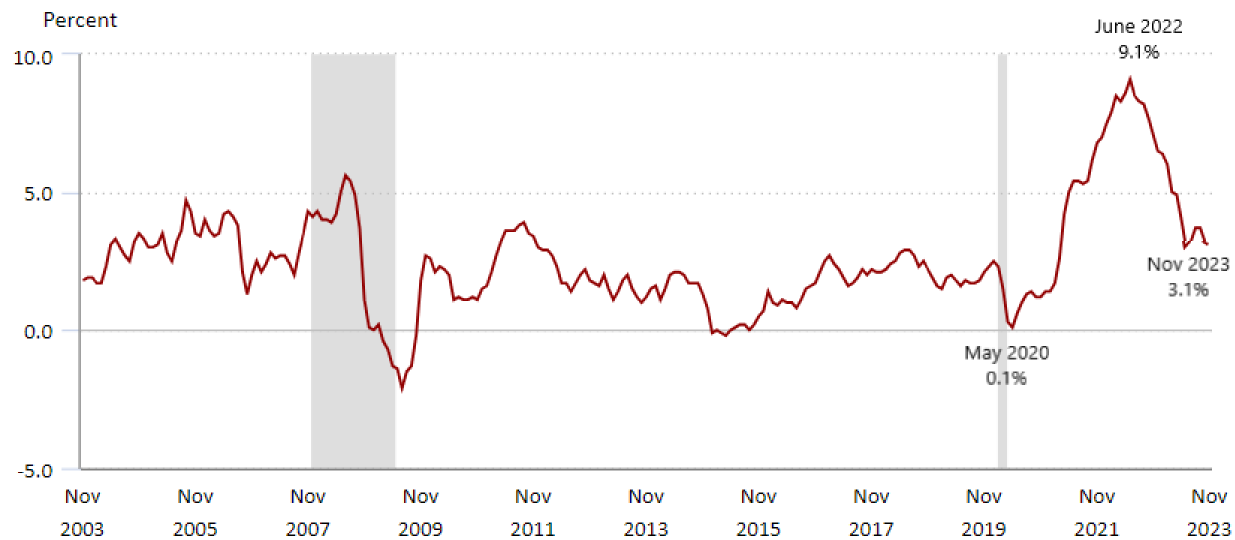
2023 Fourth Quarter Review

Greetings Friends and Colleagues,

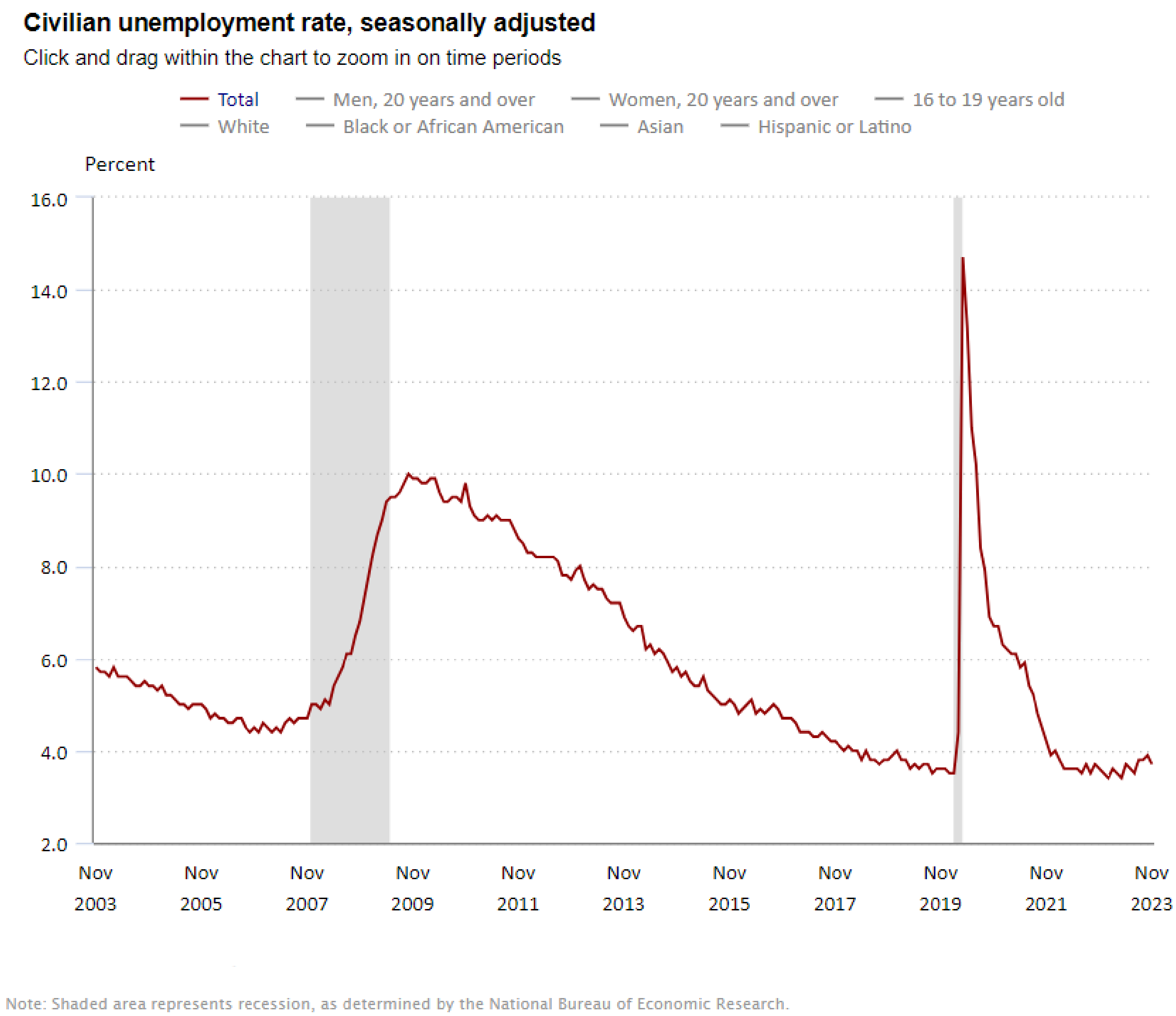
We are delighted to share another quarterly letter with you. We have received an uptick in requests for retirement projections from people undergoing renovations; we suspect that quadrupling construction costs are compelling people to seek greater assurance that their retirement picture is not at risk. If you know someone who could use a little more analysis and guidance, please forward this email and encourage them to contact us for a complimentary consultation. Please let us know if we can be of assistance.

Inflation is closing in on the Federal Reserve's 2% target after falling from 9.1% to 3.1%

Consumer Price Index 12-Month Percentage Change



Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.
https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm



Greetings Clients:

In the past 12 months, U.S. stocks appreciated 26.3%, world stocks rose 22.2%, and bonds appreciated 5.5%, as represented by the S&P 500 Index, the MSCI All Country World Index, and the Bloomberg Barclays Aggregate Bond Index. Our Ridley Cove growth portfolios returned 12-14% last year. Our goal is to match the average annualized returns of the S&P 500 Index and Aggregate Bond Index since January 1, 1926 (8% for the growth strategy and 8½% for the aggressive strategy).

These two charts are miraculous. Inflation has receded without high unemployment and a deep recession. (Our friends in the real estate industry continue to suffer; we hope their compensation recovers ASAP.) The Federal Reserve has done an artful job.

I have written pages about the benefits of the unwinding of the pandemic's disruptions and the acceleration of long-term demographic and consumer behavior trends; luckily, I have opted for a focused letter.

The Magnificent Seven tech stocks – Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, Tesla – account for about 30% of the S&P 500 Index and contributed to much of the index's gains in 2023. Without these seven stocks, the remaining 493 companies in the S&P Index returned about 10% last year. The problem is that this overconcentration can lead to outsized losses as well as gains; in 2022, a portfolio of one share each of the Magnificent Seven lost 47%. We have been concerned about the overconcentration of technology companies in the index for years, and we avoided much of the losses in 2022 because of our offsets. We will gladly give up some of the gains when times are good to avoid some of the losses when times get challenging.

<u>The Economy</u>
So where are we now? Inflation is closing in on the Federal Reserve's 2% target after falling from 9.1% to 3.1%, gas prices are down, unemployment is just about the lowest it has ever been in the last 50 years (3.7%!), and we are seeing 5% yields on cash.

Why is there such a discrepancy between the economic indicators and consumer sentiment?

Maybe because of two wars, a looming election in which EVERYONE believes that the other guy is a liar who stole or tried to steal the presidency, and prices that remain high even as inflation drops back to normal. We know better than to tie our allocation of your money to predicting short-term market movements or whether there is a direct, rational link between the economy and investor behavior. We also know that the surest way to lose money is to exit the markets; very few people have the fortitude to re-enter before prices appreciate and they lock in losses. By all means make sure that you have an all-weather, diversified portfolio. And don't hesitate to make incremental shifts based on solid information. But don't swing in and out wildly.
Ridley Cove has made the following modest shifts away from our benchmark:

1. Valuation: reduce allocation to growthy technology companies
2. Size: smaller companies have historically outperformed larger companies
3. Quality: companies with less debt and more cash generally hold up better
4. International: currency strength & exchange rates provide an opportunity
5. Bonds: higher quality and lower duration to maximize recession protection

In 2023, overall our shifts hurt our returns (although our bond adjustments beat the bond index). In 2022, our overall shifts limited our losses. We think the underperformance this past year is a small price to pay.

<u>Year-End</u>
We have been busy the last few weeks with tasks for those of you who needed to fund your 401ks or take required minimum distributions from IRAs before the 12/31 deadline. Next on the horizon is 2023 IRA contributions with a deadline of April 17^{th} in Massachusetts. Please let us know if you wish to make your contribution.

Interest Rates on Savings Accounts

Finally, one of the benefits of the dramatic rate increases by the Federal Reserve last year is that you can get 4½ to 5% in a savings account…but not at Schwab. My brother has turned interest rate shopping into a sport; I copied him and set up an account at Primis Bank. I linked it to my regular checking account and I can move money back and forth at will. Citizens Bank also has a high interest rate. Please let me know if you would like to discuss.

Our money is invested right alongside yours.

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