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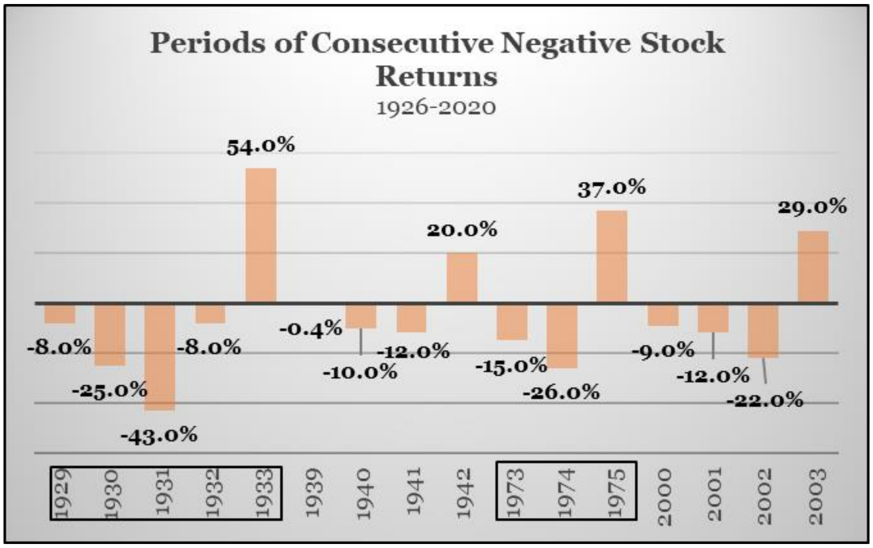
Third Quarter Market Commentary

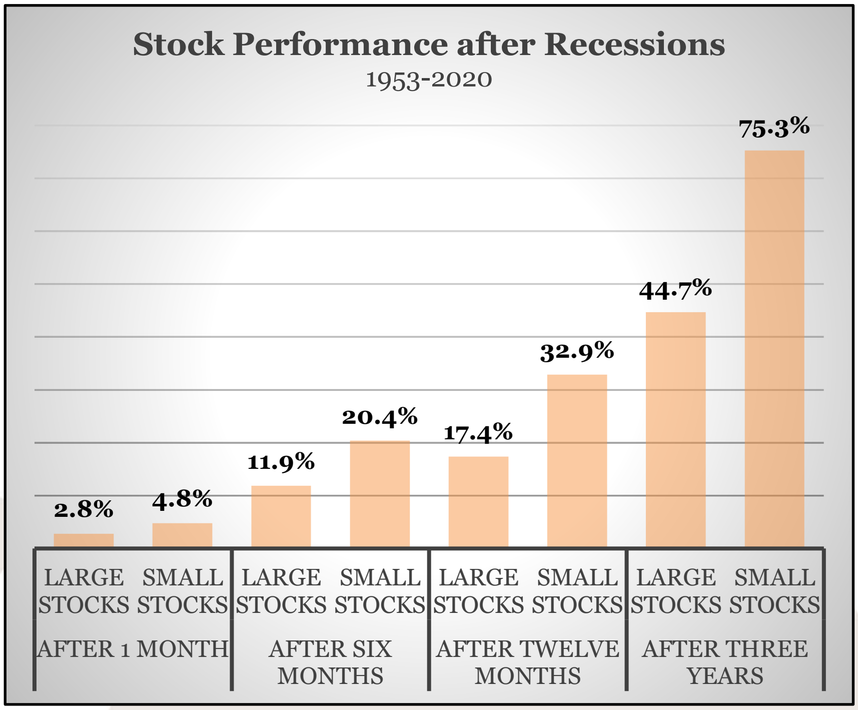


During a recent conference call among the Sierra Ridge advisor force, we noted the historically poor outlook among consumers. The June 2022 University of Michigan Consumer Sentiment Index reading of 50 was its lowest measurement since it began in 1952. When placing this in perspective we observe recent sentiment is:

- Worse than when motorists waited hours for gasoline during a punishing recession in 1974;
- Worse than 1980 when interest rates were 14.5% and the unemployment rate was double the current level;
- Worse than immediately after the September 11th terrorist attacks; and
- Worse than when the global financial system was on the brink of collapse in 2008.

The left graphic illustrates that such pessimism is unwarranted. History suggests equities will turn in a positive performance next year even if stocks finish 2022 in the red. Consecutive years of negative equity returns have occurred during four recessions since 1926, none since the dot com era. Interestingly, neither the recession during the early 1980's nor the one of the late 2000's, two of the most severe recessions in this time span, led to consecutive calendar years of negative returns.

If a recession of any kind occurs, then a key question investors will face, is how to best position their portfolios. Historically, small cap stocks lead the way, particularly early in a recovery. Smaller companies generally sell off the most but are insulated from many of the macroeconomic factors affecting markets outside the United States given that most of their revenues are generated domestically. Even more compelling is the enduring nature of small cap stocks' relative outperformance after a recession begins. The first three years after a recession is the best time to be invested in small cap shares.



When considering an appropriate asset allocation for clients a key consideration is our expectations for the timing and degree of a recession. Stocks and bonds already have experienced significant price pressure despite strong labor and consumer conditions. Furthermore, recent price readings suggest inflation is peaking. When we view current valuations in the broader context of at least two more interest rate increases, we see the best opportunities among small cap shares and investment grade credit in the fixed income space. We believe rising rates will benefit stocks longer term as higher rates normalize investors' behavior. Since 2009, investors have engaged in excessive risk taking by bidding up so-called story stocks with little-to-no earnings but a compelling narrative. This strategy worked well in a zero-interest rate environment. As we move forward, we believe more conventional textbook valuation techniques will once again help investors identify the best place to invest their capital.