NOTTINGHILL INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	2021	Three Years	Five Years	10 Years
S&P 500 Index	**28.71%**	**26.07%**	**18.48%**	**16.55%**
10-Year Treasury Note	**-3.30**	**5.42**	**3.86**	**2.91**
Gold	**-3.79**	**12.48**	**9.50**	**1.49**

All multi-year returns are annualized, and all returns are associated with time periods ending December 31, 2021

2021 — Coping with a Long Short-Term Phenomenon

Most trends last far longer than is thought possible, which is another way of saying that most phenomena are not short-term. In early-2020, a new virus was detected in the Chinese city of Wuhan. But, not to worry, public health problems of this type had occurred before — this one too would be managed. Well, after two years of human and economic tragedy, here we are still dealing with the COVID virus and its many dislocations.

The COVID drama, of course, has not been a short-term phenomenon. We are headed in the right direction, however — more and more of the population have received one of the miracle vaccines. The worldwide economy? The damage was severe, therefore, the road back never was going to be carefree and smooth. The two principal economic phenomena of 2021were supply chain issues and a shortage of labor. Both contributed to inflationary pressures. Short-term phenomena? Granted, most are not, but we believe that these problems will prove to be manageable.

Over the last two years, most investors in U.S. equities, to the credit of those investors, have focused on the various monetary and fiscal palliatives and kept their eyes on the prize. After a strong 2020 rebound, U.S. equities kept right on going in 2021. Our large company benchmark, the Russell 1000 Value Index, provided an investment return of 7.77% in the fourth quarter, and 25.16% for the entire year. Such strength, of course, did not extend to the bond market. Our proxy, a Treasury bond maturing in 10 years, provided fourth quarter and full-year investment returns of 1.07% and -3.30% respectively. Gold, for the first time in a while, brought up the rear. The respective fourth quarter and 2021 investment returns are 5.18% and -3.79%. Betting on the resilience of the U.S. economy and large company equities was the name of the game in 2021.

The current state of affairs? We do have a few thoughts.

- **Worldwide Economy**
  Omicron variant, supply chain bottlenecks, labor shortages. The road back to business-as-usual in either a public health or economic sense never was going to be easy. As we pointed out many times, however, the worldwide economy in general and the U.S. economy in particular have shown that they can take a punch or two. Patience required, but all of these bumps in the road back appear to be quite manageable.

- **Equities**
  At the stock market bottoms of March 2009 and March 2020, "compelling value" was a very good descriptor of U.S. equities in general. That is not the case in early-2022. The stock market's Growth side in particular has had an unusually long stay at the top, and Growth valuations now have reached levels not seen in quite a while. But, all is not lost. Many Cyclical/Value and emerging markets equities are attracttively valued, and deserve to be emphasized.

- **Interest Rates**
  To repeat, we are not forecasters...of macroeconomic trends, of equity prices, of interest rates. Having said that, by all accounts, an extended era of extraordinary monetary ease and interest rate suppression seems to be drawing to a close. The medicine was necessary, but the economic patient now can be weaned from that medicine. That said, if interest rates in fact are about to rise, we believe that the pattern will be slow and gradual. The economy probably has moved beyond "fragile," but "robust" still does not apply.

Now, on to 2022. Health, Happiness and Prosperity to one and all.

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And now, let's have a look at some profound words of wisdom...and humor.

About the Firm

Nottinghill Investment Advisers, Ltd., is a registered investment adviser founded in May 1996.

Nottinghill is owned by the seasoned professionals serving its clients, and effectively managing the assets of those clients, taxable as well as tax-exempt, is the Firm's only business. The twin results are commitment and focus.

Total Portfolio Management, or TPM, is Nottinghill's largely passive, balanced approach to the management of a client's overall portfolio, and Indexed Total Portfolio Management, or ITPM, is the totally passive variation. In both cases, portfolios contain three sectors: Equities, U.S. Fixed Income, and the Alternatives Group. TPM and ITPM are two complete, widely diversified answers to any client's investment needs.

Seasoned investment professionals. Commitment and focus. Two complete, widely diversified answers. Nottinghill is your ideal partner.

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"Historically, the big killers of bull markets have been…"

As most readers know, one whole corner of the Nottinghill library is devoted to famous quotes. Many favorites, of course, have to do with money, markets, and Capitalism, and this time, we thought we'd share a few of those favorites. Entertaining? We hope so. Food for thought? Absolutely.

Let's begin with Art Laffer, supply-side economist nonpareil and hero of the Reagan Revolution. Years ago, Dr. Laffer had this to say about bull markets:

> *"Historically, the big killers of bull markets have been*
> *1) Major tax increases*
> *2) Major increases in protectionism*
> *3) Massive regulations imposed on the private sector*
> *4) Inflationary monetary policy"*

The last one is particularly interesting in view of the Fed's wide-open monetary spigot the past few years and the current, increased size of everyone's grocery bills. Was the wide-open spigot necessary in the Time of COVID? Probably, but keep in mind investing's so-called scariest phrase: This time, it's different.

Ah, but Capitalism clearly is not without risk. Speaking of which, Capitalism always has inspired a great deal of commentary. For openers, how about an old Hungarian joke:

> *"What is Socialism? The longest and most painful road from Capitalism to Capitalism."*

Or this from Winston Churchill:

> *"The inherent <u>vice</u> of Capitalism is the unequal sharing of blessings. The inherent <u>virtue</u> of Socialism is the equal sharing of miseries."*

And finally, this from Paul Johnson:

> *"Capitalism is not an 'ism' at all. Instead, it's something that happens naturally in human societies, at a certain level of development, unless you take strong measures to stop it."*

Capitalism, of course, remains our society's overarching economic framework, while the way we work, organize our personal finances, and invest our assets determine our success within that framework. Regarding personal finances and investing, how about a few things to keep in mind? We'll start with some lingo from a prominent bank's print ad:

> *"A wealth manager can either serve your needs or sell you products. Guess which one produces the most successful clients?"*

<u>and</u>

> *"If you invest to feel safe, your future may be at risk."*

Couldn't have said it better ourselves. With or without an investment adviser/fiduciary, e.g. Nottinghill, in one's corner, however, the words of the great Jack Bogle are worth remembering.

> *"The greatest enemies of the equity investor are expenses and emotions."*

Want proof? Consider the following:

> *"A 2017 study (Cerulli Associates) found that more than 40% of investors either don't know what they pay for investment advice or think it's free."*

<u>and</u>

> *"A 2014 study (Dalbar) found that the average investor in all U.S. stock funds earned 3.7% annually over the past 30 years—a period in which the S&P 500 Index returned 11% annually."*

In other words, the 40% in that first study paid little or no attention to any expenses they <u>might</u> have been paying, and the average investor in that second study continually bought high and sold low, rather than simply staying the course. (The computer determined the 3.7% by tracking all fund cash flows over the period.) Which brings us to the profound wisdom of Benjamin Graham, who said:

> *"In my nearly 50 years of experience on Wall Street, I've found that I know less and less about what the stock market is going to do, but I know more and more about what investors ought to do."*

As a high priest of Value investing, Graham undoubtedly approved of John Templeton's view of things:

> *"People are always asking me where the investment outlook is good, but that's the wrong question. The right question is: Where is the outlook most miserable?"*

Which is another way of saying...

> *"Buying good companies at the wrong price is the equivalent of buying bad companies."*

<u>and</u>

> *"Value cannot be timed. Value investors suffer periods of underperformance, but Value is never out of style."*

Both by the always-wonderful Robert Olstein, who undoubtedly would agree with our grand summary of the above, very wise words, to wit...Capitalism in general and Value investing in particular may not be perfect, but, ultimately, they get us where we want to go, as do keeping our emotions in check and our investment expenses low.

Actually, a great deal of food for thought. On a much lighter note, let's end with a couple of non-investment favorites. First, from Mark Twain…

> *"When I was 14, I found my father to be ignorant, and could hardly bear having him around. But, when I got to be 21, I was astonished at how much he'd learned in seven years."*

And, this from that other great philosopher, Ben Franklin:

> *"Beer is proof that God loves us and wants us to be happy."*

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Why the above, and why now? Because these quotes pack a great deal of old-fashioned wisdom...and they're fun. We'll get back to the more sober analyses of stocks and bonds, to the great Growth/Value rivalry, to how best to do this and that, etc., etc., etc., next time. In other words, we'll get back to the pure and simple truth, exactly as <u>we</u> see it. When we do (whenever we do), please keep in mind the immortal words of Oscar Wilde: *"The pure and simple truth is rarely pure, and never simple."*

Total Portfolio Management

Portfolio Structure

Total Portfolio Management, or TPM, is a largely passive, balanced approach to the management of a taxable individual's or tax-exempt institution's overall portfolio. TPM portfolios consist of three sectors: Equities, U.S. Fixed Income, and the Alternatives Group. An active approach governs the large company component of the Equities sector, which also includes three other, passively managed ETF components. The U.S. Fixed Income sector is a combination of three actively managed bond mutual funds and intermediate Treasuries. And finally, positions in three alternative asset classes (ETFs) constitute an Alternatives Group that adds yet another layer of diversification. The result: a complete, largely passive destination for all of the taxable individual's or tax-exempt institution's investment needs.

Investment Objectives

- **A positive inflation-adjusted investment return** — A Life of the Strategy investment return greater than the inflation rate of the overall U.S. economy
- **A structure-consistent investment return** — A Life of the Strategy investment return consistent with the component investment returns weighted in accordance with the portfolio's asset allocation structure
- **Low, structure-consistent volatility** — Life of the Strategy investment return volatility consistent with that of a low-volatility structure and one weighted in accordance with the portfolio's asset allocation structure

Investment Return Summary

	2021	2010-2021
TPM Baseline*	**11.71%**	**10.28%**
S&P 500 Value Index	24.90	12.20
Bloomberg Barclays US Aggregate Bond Index	-1.76	3.58

*65% equities

Nottinghill Investment Advisers, Ltd., is an independent investment adviser utilizing a number of large capitalization equity and widely diversified balanced strategies. The above Total Portfolio Management - Baseline performance data are associated with the Total Portfolio Management - Baseline model portfolio. While the data associated with the strategy incorporate the model and actual investment returns associated with strategy components, such data, even when combined in accordance with the Baseline structure, do have certain inherent limitations. First, unlike an actual performance record, such data do not reflect actual trading. Second, since trades have not actually been executed, results may contain an under– or over-compensation for the impact, if any, of certain market factors. These data are provided net-of-assumed transaction costs and net-of-assumed management fees. Furthermore, the data are associated with time periods ending December 31, 2021, are annualized for the multi-year period, are expressed in U.S. Dollars, and are compared to the value-oriented, all equity S&P 500 Value Index and the all-fixed income Bloomberg Barclays US Aggregate Bond Index. Whether simulated or actual, past performance is no guarantee of future results. A complete list of Nottinghill performance composites and model portfolios and additional information regarding the calculation and reporting of Nottinghill performance are available upon request.

Investment Strategy Advantages

- A seasoned team of investment professionals
- The complete, largely indexed answer
- Low, fully disclosed investment expenses
- Solid performance at a low level of risk

Now, ITPM...

Indexed Total Portfolio Management

Portfolio Structure

Indexed Total Portfolio Management, or ITPM, is a totally passive, balanced approach to the management of a taxable individual's or tax-exempt institution's overall portfolio. ITPM portfolios consist of three sectors: Equities, U.S. Fixed Income, and the Alternatives Group. A total of nine components within those sectors, and all nine consist of ETF positions performing in line with an associated equity market index, bond market index, or commodity price. ITPM portfolios combine the traditional performance advantages of passive management, along with ultra-low transaction costs and management fees. The result: a complete, totally passive destination for all of the taxable individual's or tax-exempt institution's investment needs.

Investment Objectives

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- **Low, structure-consistent volatility** — Life of the Strategy investment return volatility consistent with that of a low-volatility structure and one weighted in accordance with the portfolio's asset allocation structure

Investment Return Summary

	2021	2010-2021
ITPM Baseline*	**12.59%**	**8.40%**
S&P 500 Value Index	24.90	12.20
Bloomberg Barclays US Aggregate Bond Index	-1.76	3.58

*65% equities

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