NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	2022 QI-QII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	-19.96 %	-10.61%	10.60%	11.31%	12.96%
10-Year Treasury Note	-11.47	-11.05	-0.97	0.87	1.31
Gold	-0.27	3.58	8.84	7.92	1.30

All multi-year returns are annualized, and all returns are associated with time periods ending June 30, 2022

2022 QI-QII — Dr. Friedman, I Believe

In the aftermath of the 2008-2009 recession, the multi-year lament among economists was that Industrial America had no pricing power and that something like 2% inflation in fact was the ideal. What immediately came to mind was that time-tested admonishment: Be careful what you wish for. Then, this year, we once again were reminded of that admonishment as the economy emerged from the lockdown chaos of 2020-2021. Aggregate demand, which had been suppressed throughout the System, would have come back very well without any help, but then, was accelerated by Washington's wide-open monetary spigot. On the supply side, many supply chains had to be re-energized, even re-created, while a number of ill-advised policies elsewhere actually exacerbated inadequate supply. Voilà. In the language of the great Milton Friedman, too many dollars chasing too few goods. Getting the inflation genie back in the bottle will take some doing. All eyes are on the Fed at this point, and we have no doubt that the Fed ultimately will get the job done.

The Fed will get the job done, but when and how? The answers to those two questions are unknown, and that continued to weigh on equity prices in the second quarter. The primarily growth-oriented S&P 500 Index provided an investment return of -16.10%, making the six-month return -19.96%. The decidedly growth-oriented NASDAQ Composite, with second quarter and six-month returns of -22.44% and -29.51%, respectively, did quite a bit worse. So far, of course, the more Growth in one's 2022 portfolio, the worse off he/she has been. The Value style to which we subscribe has not gone unscathed, but has been the place to be in a relative sense. Bonds? They typically are a source of comfort when equities are having their problems, but once again, that was not the case in the second quarter. Our proxy for the bond market is a Treasury bond maturing in 10 years. This bond's second quarter and six-month returns were -5.05% and -11.47%, respectively. Gold essentially was flat over the six-month period. In the May Update, we mentioned that the first quarter was not calm and uneventful. Neither was the second.

The current situation? Well, it's complicated.

- **Worldwide Economy**
  Right out of the Milton Friedman playbook, too many dollars chasing too few goods has put us in a predictable mess. Much of the current inflation problem is man/woman-made, but some of it was inevitable after the trauma of COVID. The Fed will get the inflation problem under control, but at what cost? The road ahead is full of potholes - one-by-one, those potholes will be filled/overcome.

- **Equities**
  They are in a rough patch, and valuations have come down. Many of today's buys should look good a year from now, however, the inflation/interest rate picture is a serious near-term headwind. Additional stock market weakness, in other words, would not surprise us. But, selection matters. The stock market's Value side should continue to outperform; we continue to recommend that investors have minimal Growth exposure.

- **Interest Rates**
  The Fed has designated the control of inflation as Job #1, and the Board means it. Additional interest rate hikes almost certainly are in our future, but Fed strategy at this point also is data-dependent. In other words, all incoming data will be monitored carefully, and great care will be taken not to harm the economy unduly.

Mid-year 2022 is a good time to be well-diversified. The obvious follow up question: Is there ever a time to be less than well-diversified? We think not.

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.

Southampton Square
7414 Jager Court
Cincinnati, OH 45230
513.624.3000 Tel
513.624.3003 Fax
www.nottinghilladvisers.com

The Path Ahead Process…
Problem Solving
in the Modern Era

"The most powerful force in the universe is compound interest."
- Albert Einstein

Long ago, when today's "classic rock" actually was on the Billboard Hot 100 chart and "financial planning" was something IBM did, you really could tell the players without a program. The investment advisers were over here, the stockbrokers were over there, the insurance people were somewhere between here and there, etc., etc. Now, the lines increasingly have become blurred as everyone embraces the so-called wealth management model, and tries to be all things to all people.

Call them what you like, we'll state unequivocally that successful advice-givers in the modern era have to be solution-oriented. Sure, performance, benchmarks, etc., always will be important, but investment advisers increasingly are being called upon to be problem solvers offering custom solutions. Want an example? Let's discuss a situation that came our way a few years back.

The Situation

When we first were introduced to the individual involved, he unexpectedly had inherited $1 million, which constituted his entire investment portfolio at that time. But, he was in his early-30s, and, with a set of skills and after-tax income of $5,000 per month, he was in pretty good shape anyway. His solution-seeking question: What happens to the investment portfolio over time if my monthly expenses are increased to $8,000, thereby requiring $3,000 per month from the investment portfolio. Interesting question.

Figure 1

The Path Ahead — Purchasing Power

	Annual Investment Return*		
	4.70%	**3.70%**	**2.70%**
Investment portfolio purchasing power after:			
10 Years**	$1.14 million	**$1.01 million**	$0.90 million
20 Years**	1.36	**1.03**	0.76
30 Years**	1.72	**1.05**	0.58

**Net of assumed management fees, taxes, and inflation*
***Beginning investment portfolio market value $1 million; withdrawal rate $3,000 per month*

The Investment Strategy

The Nottinghill solution in this case was determined to be Indexed Total Portfolio Management (ITPM), our completely indexed approach to conservative balanced portfolio investing. Nine low-cost portfolio components in a Baseline (65% equities) structure. Why Baseline? Because, while a steady, reliable level of monthly income is vital in this case, so is long-term growth of capital in order to stay ahead of the inflation wolf. ITPM-Baseline with a 65% equity commitment was the logical compromise and logical Nottinghill solution.

Investment Return Possibilities

So, he and we decided to go with ITPM-Baseline, and then discussed the investment return possibilities. For openers, over the 2010-2019 decade, ITPM-Baseline would have provided an annualized, gross-of-fee investment return of 8.24% (source: Nottinghill research). In the interest of conservatism, we believed that this individual could expect a future investment return of 6.50%, with 7.50% being the upper bound and 5.50% being the lower bound of the range of possibilities. To get a net-net figure, the next step was to deduct ITPM's 0.50% annual management fee and 0.30% for taxes. The net-net range, therefore, became 6.70% to 4.70%, with 5.70% being the most likely outcome.

The Path Ahead — Future Asset Values

At that point, all concerned knew the starting value of the investment portfolio, the required level of monthly withdrawals, and the range of likely future investment returns, net-net. But, the path ahead in this and all situations is defined best by available portfolio assets at various points in the future, and Einstein's powerful force, compounding interest, is on full display in this exercise. At 5.70%, the investment portfolio's market value will increase somewhat after 10 years (even with monthly withdrawals of $3,000), and will increase considerably after 20 and 30 years. But, while the absolute dollars may be important, what about the purchasing power of those future assets?

The Path Ahead — Purchasing Power

Again, the absolute dollars are important, but what these dollars actually will buy at various points is a very important consideration as well. For this individual, the Fed's long-term inflation target (2.00% per year) seemed reasonable (currently, of course, the Fed has some work to do, but we'll get there), therefore, the range of assumed, inflation-adjusted investment returns was 4.70% to 2.70%, with 3.70% being the most likely outcome. The results are in Figure 1. At 3.70%, purchasing power essentially is maintained over each multi-year period. At 4.70%, no complaints at all. Only at the lower level of 2.70% does purchasing power decrease over the long-term. As a footnote, however, what such a long-term, real investment return implies for the U.S. economy and the capital markets suggests that this is a low-probability outcome. So, we felt comfortable going with the 3.70%, and voilà, the path ahead and the specific way to go down that path were defined for this individual.

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In thinking about the above circumstances, the phrase "could be worse" comes to mind, but, all too often, the circumstances requiring an investment portfolio to deliver are not the best. No matter how fortunate or challenging those circumstances are, the goal is to figure out how best to deal with the circumstances from a financial standpoint, and to come up with the right plan for the individual involved. That plan constitutes the path ahead. We have illustrated a process for defining that path, from an analysis (usually detailed, but oversimplified for our purposes here) of the individual's current situation and what will be required going forward, to the actual management of the assets involved. The result in the above example was a solution. Can we employ the Path Ahead analysis for you? Can we provide you with a solution, i.e., the clarity and peace of mind that come with a plan? We're ready, willing, and able.

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

	2022 QI-QII	2010-2022
TPM Baseline*	**-13.13 %**	**8.61 %**
S&P 500 Value Index	-11.41	10.60
Bloomberg Barclays US Aggregate Bond Index	-10.35	2.54

*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 June 30, 2022, 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 necessary experience to carry out a client's investment plan successfully
- **A straightforward Investment Philosophy** — The foundation is strong
- **A highly disciplined Investment Process** — Securities enter and leave portfolios for well-defined reasons
- **Solid performance** — Persuasive supporting data and, therefore, a powerful predictor of future success

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

- **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

	2022 QI-QII	2010-2022
ITPM Baseline*	**-15.57 %**	**6.60 %**
S&P 500 Value Index	-11.41	10.60
Bloomberg Barclays US Aggregate Bond Index	-10.35	2.54

*65% equities

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