NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	2022 QI-QIII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	-23.87%	-15.46%	8.17%	9.24%	11.70%
10-Year Treasury Note	-16.48	-15.59	-3.95	-0.39	0.60
Gold	-8.70	-3.97	4.00	5.28	-0.65

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

2022 QI-QIII— Nowhere to Hide

The Fed is walking a tightrope. On the one hand, if the Fed keeps raising interest rates aggressively, inflation will be tamed, but the price we pay will be a prolonged slowing of the economy, maybe a recession. On the other hand, if the Fed backs off, the economy can withstand a return to some sort of interest rate equilibrium, but System-wide inflation will be a persistent headache. Stark choices that investors have been grappling with ever since the champagne glasses clinked last New Year's Eve. Two thousand twenty-two has been a difficult year, topped off by a September that everyone will remember. The Fed ultimately will get the job done. When and how remain to be seen.

Five percent. As surely as night follows day, stock prices go through difficult periods, and the role of bonds in balanced portfolios, ours included, is to cushion the impact of falling equity prices during times of trouble. And, bonds typically serve very well in that role. About 5% of the time, however, stock and bond prices move together to the downside, and 2022 has been one of those 5% times. The primarily growth-oriented S&P 500's nine-month investment return is -23.87%, while our own Russell 1000 Value Index provided an investment return of -17.75%. At the same time, a Treasury bond maturing in 10 years, our proxy for the bond market, provided an investment return of -16.48%. Obviously, bonds did not provide much of a cushion, and the expression "nowhere to hide" has been a 2022 favorite. That was particularly true in the third quarter. The S&P 500, Russell Value, and 10-year Treasury investment returns were -4.88%, -5.62%, and -5.66%, respectively. Even gold (-8.45% in the third quarter), which had held up reasonably well through June, finally succumbed. Nowhere to hide during 2022's first nine months, and never has this expression been more valid.

Now, the current situation, under three broad headings:

- **Worldwide Economy**
  Believing last year's inflationary pressures to be transitory, central bankers everywhere were late to the inflation-fighting party. They now are in catch-up mode, which means aggressive monetary tightening and higher interest rates in most corners of the globe. Ultimately, worldwide inflation will be brought under control, but the price to be paid is a period of slow growth, maybe a recession.

- **Equities**
  Maybe a recession? Equity investors are behaving as if a recession is a foregone conclusion. The narrative at this point is that Fed tightening is to blame, and corporate earnings will suffer as a result. We get it, the stock market faces some important near-term headwinds, but we believe that buying at many of today's prices should look good a year from now. Emphasize Value instead of Growth.

- **Interest Rates**
  The path of least resistance is up, and that will continue until the Fed here at home and other central bankers sense that the inflation fight is being won. They are responsible for a large part of the current mess. Now, they are responsible for getting us out of it.

Finally, we direct your attention once again to that 5% figure we mentioned earlier. To repeat, about 5% of the time stocks and bonds move together in price to the downside, and bonds therefore fail to counter the problems of the stock market. The effect is to negate to a large extent the normal virtues of diversification, virtues that we hold near-and-dear. But, if history is any guide, we are talking 5% of the time – this too will pass.

Now, a few words about one of our favorite stocks...

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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Exxon Mobil and the Dow…
"A Blessing in Disguise"

"If it's in the newspapers, it's in the price."
- William Miller

Beware of broad consensus. Long ago, one of us earned his spurs at a large investment firm run by some of the best and the brightest in the investment world. The research effort was extensive, and, when stockpicking was the order of the day, portfolio stocks were selected from a candidate list known as the Guide, about 400 of the most well-known U.S. companies/stocks. But, the Guide was ever-changing. Analysts continually would evaluate their industry groups and cull their lists, i.e., eliminate Guide companies thought to have subpar prospects and replace those Guide companies with others thought to be budding corporate superstars.

Well, we can't say that cynicism is a noble virtue, but we bow to its inevitability. Whenever a company/stock was removed from the Guide, those who actually had to pick stocks for portfolios always chuckled because too many of the rejects seemingly went on to become winners. In other words, the scorned companies' problems and dicey outlook (?) were well-recognized, and their stock prices already reflected this negative consensus. Admittedly, we never saw any raw data, but strongly suspected that <u>buying</u> Guide rejects in fact was the thing to do. As to the second part of this trade, the replacements' seemingly superior prospects also were well-recognized, and fully reflected in <u>their</u> stock prices. So, an important maxim around here: Beware of broad consensus. Which brings us to Exxon Mobil.

Née Standard Oil of New Jersey, this crown jewel of Rockefeller's Trust entered the prestigious Dow Jones Industrial Average in October 1928. For decades, Exxon, in its various guises, was one of the 10 most valuable of all U.S. companies. In fact, during the 2006-2011 period, the company was at the very top of the list.

But, times change, and the Index compilers at Dow Jones surely noticed in the mid- to late-2010s that Exxon was sliding. Big Oil's best days probably were behind it, and Exxon, which had traded for $104 per share in 2014, was trading for $42 per share in August 2020.

Uh oh, time to throw in the towel? Yes, after 92 years, Exxon was kicked out of the DJIA, and replaced by Salesforce, a fine San Francisco software company. Obviously, a New Economy company/stock with far better prospects, particularly in this brand-new, anti-fossil fuel era. But, wait...not so fast. In their haste to get us to this <u>brand-new era</u>, the administration and Congress forgot that the era of efficiently produced, <u>affordable</u>, clean energy still is out there someplace. So, as it turned out, fossil fuels' demand side still looked pretty good. The supply side? Well, at the same time, the administration and Congress unwisely discouraged the search for and production of fossil fuels.

Econ 101. In an environment of business-as-usual demand and sharply reduced supply, voilà, the price of oil has just about tripled since August 2020, and so has the price of Exxon ($42 per share to $110 or so).

Salesforce? The stock was changing hands at about $251 per share in August 2020; currently sells for $140-150. But, this is not an indictment of Salesforce. Rather, we're suggesting that anything getting kicked out of an index (or removed from a Guide) deserves a second look, as does the reject's replacement. In both cases, the changes reflect some sort of broad consensus. Beware of broad consensus.

Want some more proof? One study by Professors Cai of Drexel and Houge of Iowa focused on the stocks of the most popular <u>small</u> company index in the period between 1979 and 2004. Cai and Houge found that a portfolio of stocks kicked out of this index outperformed a portfolio of additions by nine full percentage points per year. Nine full percentage points per year!

Remember, price matters. When the analysts of the old Guide were culling their lists, the companies' seemingly poor fundamentals in most cases were very well known and almost always fully reflected in the stocks' valuations. And, the forces of Capitalism in many cases already were on the march. New management teams were being assembled, new ideas formulated, new products developed, etc., etc. In other words, these were times of <u>opportunity</u>, rather than times to throw in the towel. The stocks getting kicked out of arbitrarily compiled stock market <u>indexes</u>? Same thing.

Two footnotes…

First, when Exxon Mobil was kicked out of the DJIA in August 2020, Mark Hulbert, a well-known market letter writer, referred to it as "a blessing in disguise" for Exxon's shareholders. He had observed the same <u>index</u> phenomena we stockpickers had observed in those long ago days of the Guide. And, he had the data to back up his contention.

Second, as an aside reported by Hulbert, IBM was kicked out of the DJIA in 1939 when the company's prospects appeared to be a bit dicey, and was added <u>back</u> to the DJIA in 1979 when the company was cranking on all eight cylinders. If IBM had been in the DJIA over that 40-year period, the Index would be at 60,000 today. That's 60,000, not 31,000. Turns out 1939 was a good time to pick up a few IBM shares.

* * * * * * * *

Peter Lynch of Magellan Fund fame once said that, when it comes to investing, the key organ is the stomach, not the brain. We couldn't have said it better. When a company/stock is removed from a candidate universe or a popular stock market index, you can bet that some sort of broad consensus already has pushed down the price of the stock. Going against that consensus takes courage, and yet, all too often that's the right move. Exxon's problems already were "in the newspapers" in August 2020. Yet the stock was cast adrift after 92 years. The company's shareholders? The odds suddenly were in their favor. Beware of broad consensus.

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 Jan-Oct	2010-2022
TPM Baseline*	**-17.02 %**	**8.00 %**
S&P 500 Value Index	-8.49	10.59
Bloomberg Barclays US Aggregate Bond Index	-15.64	1.99

*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 October 31, 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 Jan-Oct	**2010-2022**
ITPM Baseline*	**-17.24 %**	**6.26 %**
S&P 500 Value Index	-8.49	10.59
Bloomberg Barclays US Aggregate Bond Index	-15.64	1.99

*65% equities

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