NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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Quarterly Update

SCORECARD

	2023 QI - QII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	16.90%	19.60%	14.60%	12.31%	12.86%
10-Year Treasury Note	2.75	-2.58	-6.23	0.78	1.44
Gold	5.10	5.10	2.71	8.84	4.83

All multi-year returns are annualized, and all returns are associated with time periods ending June 30, 2023

2023 QI-QII — Recession or Soft Landing?

Recession, or no recession…pick the definition and data you prefer and place your bets. In fact, the most highly anticipated recession in modern economic history is long overdue and may not even arrive. Is the Fed getting this one right, i.e., bringing inflation under control without sending the economy into a tailspin? So far, so good. Inflation currently is running at 4% or so, and the consumer in particular, when confronted by the Fed's higher borrowing costs, has yet to blink. Of course, some data points are less encouraging, but that is to be expected after the interest rate jolts of the past 18 months. Maybe, just maybe, the Fed and the rest of us will get a so-called soft landing, everyone's target but something so difficult to achieve.

If the recession jury is still out, someone should tell the stock market. The major market indexes had a first half ranging from just fine to very good. Under the surface, however, the picture was not quite so rosy. At the end of May, seven S&P 500 stocks were responsible for all of that Index's 2023 performance and accounted for 30+% of that Index's total market capitalization. Participation in the 2023 market advance did improve in June, but the unprecedented narrowness of the advance was a sight to behold and not in a good way. Bottom line: The market's large company Growth/Technology favorites performed; Value stocks and small company stocks did not. Bonds? Our proxy for the overall market is a Treasury note maturing in 10 years. That note was down 1.18% in the second quarter but still had a positive total investment return (2.75%) for the year. Gold? With inflation trending down and March banking problems seemingly contained, the barbarous relic declined 3.38% in the second quarter. Year-to-date investment return 5.10%.

THE CURRENT SITUATION — The Consumer Has Yet to Blink

- **Worldwide Economy**
  The rate of inflation in the developed economies is coming down. Maybe not fast enough for some, but inflation is coming down. The question du jour: Can we get across the finish line without a recession or pronounced slowdown? In other words, can the various central bankers here and abroad engineer a so-called soft landing? Frankly, the historical record is not a good one; but the consumer rules in the industrial world, and so far, so good.

- **Equities**
  The performance of the large company indexes ranged from just fine to very good in the year's first half. But remember, the overall stock market still has not surpassed its October 2021 peak. The 2023 stock market rally has been very narrow, and that is concerning. The sustainability of this rally depends on the troops (stocks of most stripes) catching up with the generals (the currently very popular market leadership).

- **Interest Rates**
  The Fed has a dual mandate: Keep the economy humming, and keep inflation under control. The fixation in mid-2023 is the latter, and Chairman Powell et al. have made it clear that getting the inflation genie back in the bottle is worth the cost of a slowing economy. How much interest rate-induced pain is the Fed willing to tolerate? Probably not much, so chances are good that the Fed's work is close to being done. After all, we have come a long way.

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Now, the four Ds? What's that all about?

ABOUT THE FIRM

Nottinghill Investment Advisers, Ltd., is a registered investment adviser founded in May 1996. A long history of achievement.

Nottinghill is a team of seasoned professionals serving taxable and tax-exempt investors, as well as other investment advisers. Asset management and otherwise serving asset management clients are the Firm's only business. The twin results: commitment and focus.

Nottinghill is a manager of large capitalization equity and widely diversified balanced portfolios. The Firm can serve in a specialized role, or as a client's sole adviser.

Nottinghill's equity and balanced investment strategies constitute the Firm's Yield Plus Approach to investing. The Yield Plus Approach is a straightforward, all-encompassing investment philosophy and a set of well-defined investment processes. Precision and discipline.

A long history of achievement. Commitment and focus. Specialization, or single-manager responsibility. Precision and discipline.

Nottinghill is your ideal partner as you go down the financial path ahead.

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The Four Ds and the Worst of the Four-Letter Words

*"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."*
-Benjamin Graham

R-I-S-K. For almost all of the last decade and during most of the current one, this aspect of portfolio management has been a forgotten, second-class citizen. The fiscal and monetary spigots have been wide open, and the results have been money in just about every pocket and 0% interest rates. Sure, 2018 was no picnic, and neither were 2020's first quarter and 2022. But, point-to-point, the broadly based S&P 500 Index compounded at 12.98% per year between January 1, 2010, and June 30, 2023. Even with the champagne flowing and the confetti flying, however, we still recommended that investors focus on the four Ds, and that recommendation stands. What are the four Ds?

Debt. Treasury and corporate debt, that is. We recommend bonds for just about everybody's overall portfolio. They stabilize the pattern of investment returns; they provide sanctuary in times of stock market stress; traditionally anyway, they provide most of the portfolio's income needs. Our go-to approach for some time has been Select Four, a four-Fund combo with each Fund manager having a certain sub-specialty. Now, we also are employing a companion approach in many cases, i.e., a Treasury ladder. Treasury yields are back to more normal levels, and this second component containing only these highest quality credits is possible. Maturities are staggered, and the plan is to hold each Treasury note to maturity. In theory, no losses as funds continually are re-cycled from maturing issues to new, longer-term issues. But, Select Four or a Treasury ladder, we say again that bonds are a valuable member of the team during periods of stock market stress. Consider Figure 1. These are the two-year periods during which the S&P 500 Index (with dividends) lost 15% or more of its value. Note how much of the pain would have been offset by Treasuries maturing in five years. Again, from time to time, valuable members of the team.

Figure 1

Five-Year Treasuries and Periods of Stock Market Stress 1926 - 2022

Two-Year Period	Unannualized Total Investment Return: S&P 500 Index	Unannualized Total Investment Return: Five-Year Treasury Note
1929 - 1930	-31.22%	13.13%
1930 - 1931	-57.43	4.24
1940 - 1941	-20.22	3.47
1973 - 1974	-37.27	10.56
2001 - 2002	-31.36	21.61
2007 - 2008	-33.54	24.83

Diversification. Including Debt is one aspect of diversification, but, for these pruposes, we'll attach a larger meaning. Remember the old Mae West line: "Too much of a good thing can be wonderful!" Well, that's true only as long as that one thing stays good. The truth is, no investor knows everything about each investment, so spreading portfolio assets around in an intelligent manner makes a lot of sense. But, isn't "intelligent manner" the $64,000 question? To some extent, but there are certain rules/guidelines that we routinely discuss with our clients. For example, make sure portfolio equities are diversified by group as well as issuer; have no more than 15-20% invested in even a low-cost or emotional favorite; have no more than 5-10% invested in anything else. What's important is that the investor frequently asks himself/herself the following question: What can sink this ship? The answer should be: no one thing.

Dividends. When the champagne is flowing — and this happens time and time again — the prevailing attitude is that dividends don't matter. You know the reasoning. The tax laws are stacked against them; management knows best what to do with corporate cash; etc., etc. In good times and bad, however, we've been steadfast in our reverence for that good old "bird in the hand" (as opposed to capital gains, which may or may not be out there someplace). Dividends always matter for at least two very good reasons. First, unlike book value and even corporate earnings, dividends are not an abstraction in any sense. They are real dollars and cents landing in a client's account. Second, if you look at Ibbotson's famous study of long-term stock market returns (1926-2022), you'll see that dividends accounted for over 40% of those long-term returns. Granted, no dividend is guaranteed, but emphasizing the more certain part of total investment return does help reduce overall risk.

Discipline. We saved the best for last. In fact, every investor is faced with a bewildering array of permutations, combinations, and alternatives, so it's absolutely necessary to have a Grand Plan and then stick to it. Of course, bear markets are painful, but we stress over and over that the Grand Plan be based almost entirely on client circumstances and risk tolerance and to a much smaller extent on something called "the market outlook." Naturally, if circumstances change, the Grand Plan should change, but the key word is "infrequent." Staying the course, like breaking up (Neil Sedaka, 1962), can be hard to do, but staying the course with a Grand Plan does eliminate so-called "emotional risk," a potentially very harmful tendency to throw in the towel at exactly the wrong time.

Debt. Diversification. Dividends. Discipline. The four Ds, and they should be an important part of the mix throughout the stock market cycle, in any era. The worst of the four-letter words is a fact of investment life, i.e., something that never goes away. Long-term investment success depends on controlling the worst of the four-letter words, and the four Ds are four of the principal tools.