NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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Quarterly Update

SCORECARD

	2023	Three Years	Five Years	10 Years
S&P 500 Index	26.29%	10.00%	15.69 %	12.03%
10-Year Treasury Note	4.04	-5.48	0.46	1.83
Gold	13.17	2.78	9.94	5.66

All multi-year returns are annualized, and all returns are associated with time periods ending December 31, 2023

2023 — The Chaperone Finally Arrives – Should the Chaperone Stick Around?

In 1955, Fed Chairman William McChesney Martin famously said, "The Federal Reserve is in the position of a chaperone who has ordered the punch bowl removed just when the party was really warming up." The image: revelers everywhere and a lot of easy money, along with a Fed ready to swoop in and cut off that easy money before the excesses get out-of-hand. For the entire 2010s decade, however, there was no chaperone as interest rates were kept close to 0%. Then came COVID, and the Washington fiscal spenders added their own concoction. Things really began to heat up, i.e., too many dollars chasing too few goods and a serious bout of inflation. Suddenly, Chairman Powell et al. began taking their chaperoning duties to heart…seven interest rate hikes in 2022, and two more in 2023. The challenge always was to get the punch bowl back to the kitchen without anything breaking, however, and so far, so good. Sure, we had the Silicon Valley Bank mess last spring, and consumer spending is still something of a question mark; but maybe, just maybe, any damage to the System will be contained. As 2024 unfolds and talk of interest rates cuts is in the air, we will know soon enough.

There were many stock market stories in 2023, but the big stock market story involved a small group of stocks dubbed The Magnificent 7. Left for dead following a disastrous 2022, these seven Tech stocks pivoted on a dime last January and, defying the laws of stock market psychology, became market leaders once again. In fact, the Magnificent 7 became the only game in town. Concentration to this degree typically is dangerous, but participation had broadened considerably as the year came to a close. For the year, the investment return of most value-oriented indexes was considerably below anything with a Magnificent 7/growth bias, and large company stocks generally outperformed small company stocks. Bonds? Rightly or wrongly, Fed smoke signals in the fourth quarter were dovish, therefore, a 10-year Treasury (our proxy for the bond market) had its own ninth inning rally and returned 4.04% for the year. Gold (13.17%) also had a very good 2023 in the midst of dovish Fed signals. All in all, a good year for the three principal asset classes, with good momentum at the end.

THE SITUATION AT YEAR-END — Has the Fed Threaded the Needle?

- **Worldwide Economy**
  When the Fed and other central bankers shift gears and take the punch bowl away, rising interest rates frequently cause something to break. If the only "something" this time turns out to be last spring's Silicon Valley mess, then the Fed et al. indeed have succeeded in threading the needle. And again, so far, so good. Washington-induced inflation finally is trending down, while corporate profits and employment are just fine.

- **Equities**
  Throughout 2023, we warned about the dangers of concentrated stock market leadership. The historical pattern is that the leaders in such situations eventually come back to Earth and join the others in the midst of difficult conditions. This time, however, the rising tide of the healthy November-December rally lifted way more boats than had been the case in most of 2023. In other words, more participation by more stocks, and that is a good thing.

- **Interest Rates**
  All would agree, the Fed kept interest rates too low for too long and was aided and abetted in this too-expansionary policy by the Washington fiscal spenders. The predictable outcome: inflation, which the Fed then had to tame. And tame the Fed apparently has done. What now? There actually is talk of interest rate cuts in 2024. The hope is that everyone keeps his/her eyes on the prize, i.e., practices fiscal/monetary discipline, the result of which will be lasting progress in the fight against inflation.

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And now, the magic of dividends.

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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Dividends — The Bird in the Hand

"I'm not so sure what book value is,
or what cash flow is. I'm not even sure what earnings are.
But, dividends aren't an abstraction."
- J.D. Patterson

As December 31, 2023, approached, the New Year's Eve beverages were iced and the toasts prepared, and we were able to look back with contentment on yet another year in which our yield-oriented selection disciplines served us well, even in a Growth/Tech-obsessed stock market. "Dividends don't lie," as a famous market letter writer once said, and that sentiment is echoed in the quote above. Additional evidence is provided by the long-term performance of our 10-stock Yield Group. Let's get into a few of the weeds…

The independently selected Yield Group has been the heart-and-soul of our portfolios since the late-90s. Sure, there have been times when dividends have mattered little to equity investors, but we in particular have had no trouble maintaining our reverence for that old dividend check, i.e., that proverbial "bird in the hand," as opposed to capital gains, which may or may not be out there some place. Why should dividends always matter?

First, dividends traditionally are a large part of total investment return.

Ibbotson's famous database of stock and bond market investment returns goes back to December 31, 1925. They are presented in a number of ways, but what's particularly important is that this 98-year period includes just about everything that history can throw at us. Boom times and depressions, peace and war, political calm and political turmoil. The ultimate bottom line: From December 31, 1925 to December 31, 2023, the broadly based S&P 500 Index provided an annualized investment return of 10.28%. Dividends accounted for over 40% of that annualized investment return. Sure, yields were higher in some periods than in others, but the large scope of this 98-year period makes it easy to generalize.

Second, dividends frequently are an important barometer of basic corporate health.

To paraphrase Mr. Patterson above, dividends are real dollars and cents landing in a custodial account, while a company's underlying earnings and even book value often are abstract and subject to, shall we say, "management." Dividends demonstrate the Board's affection for the shareholders and the company's ability to show that affection. Obviously, no guarantees attached, but cutting the dividend is not an act taken lightly.

And finally, dividends can be an excellent indicator of investment value.

As stated, the 10-stock Yield Group is a large and important part of our equity and balanced portfolios. We do use a couple of screens, but these 10 stocks are selected from our candidate universe primarily on the basis of high dividend yield, historically an excellent sign that these stocks are out-of-favor and cheap. More often than not, we're able to capture a fair amount of success as the companies' fundamentals and/or business cycles improve, and the heretofore out-of-favor and cheap begin to appreciate and dividend yields fall. They then are no longer competitive, the stocks are sold, and a new group of market pariahs comes to the fore. The point is, a great deal of research and a great deal of experience indicate that high dividend yield frequently equates to above-average investment value. Which brings us full-circle to December 2023/January 2024. Our December/January trading program is our largest of the year by far and follows a formal evaluation of the equities held in client portfolios at that time. A few weeks ago, we had a couple of Yield Group stocks that had done very well in 2023 and whose yields no longer were competitive. We took profits, and re-cycled the proceeds into two much higher-yielding market pariahs. Voila! A brand new, 2024 Yield Group, whose 10 stocks are listed in Figure 1.

Figure I

Current Yield Group Stocks and Year-End Yields

Stock	Yield
AT&T	6.67%
Pfizer	6.43
3M	5.61
Crown Castle	5.46
Simon Property	5.18
Williams Cos.	5.16
Dow	5.16
Citigroup	4.22
IBM	4.08
Newmont	3.89
Average	**5.19%**

Average December 31 yield 5.19%. That is how the Yield/Value part of the stock market became priced as all those investor dollars chased the latest Tech craze. We're talking a current yield considerably higher than that of the stock market's biggest rival, a Treasury note maturing in 10 years.

Long before 2008 and 2018, two recent years of considerable ill-repute, there was 1974, another year of significant economic and stock market problems. At that year's market bottom, you could count the interested common stock buyers on one hand, and the investment landscape was littered with opportunity. Warren Buffett recognized the widespread opportunity, did some of his most famous large-scale buying, and uttered one of his most famous lines: "I feel like a kid in a candy store."

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Well, so did we a few years ago as we gladly closed the books on 2018, yet another year that will live in infamy. Looking ahead, though, we were encouraged for two very important reasons. First, we knew very well that the Yield Group had a good record of rebounding from tough times. The extensive database of Yield Group investment returns told us so. Another reason to be encouraged in early-2019 was the Group's then-average yield of 5.28% (not unlike the 5.19% of Figure I). To repeat, nothing better indicates investment opportunity than high current yield, certainly among the Value stocks in which we specialize, and that 5.28% of year-end 2018 was the highest Yield Group average in our database. So, serious rebound potential, and lo and behold, that potential became reality in 2019. If history is any guide, that same Yield Group potential exists right now. In other words, the Yield Group candy story appears to be unusually well-stocked (so to speak).