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Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call us at your convenience to set up your quarterly investment meeting.

**Contents:**



**Going, Sebastien, Fisher & Le Bouef, LLP News:**

- GSF&L looks at various asset classes that may be suitable for clients' portfolios to add diversification (reduce risk). We offer Insurance-Linked Securities, Alternative Lending, Market Insurance, Diversified Alternatives, Realty, and Real Assets, so feel free to contact us for more details. The strategies have a low to moderate correlation to a Global Equities/Global Fixed Income mix; therefore, adding diversification to portfolios.
- Craig attended the Versus Capital Annual Client Conference September 14-16, 2022 in Boulder, CO. Sessions he attended included core real estate update, farmland update, foreign real estate update, timberland update, and infrastructure update.
- Please make note of the above letterhead indicating our Lafayette office has moved to Kaliste Saloom Road. Should you need directions please contact our office.
- We are also pleased to announce the acquisition of the accounting practice of Dallas Fleming & Associates (DM&F). We welcome all of the DM&F clients and look forward to continuing to service your needs as Dallas was able to over the past many years.

**Investment Views:**

- ***YCharts - Through September 30, 2022 - Year-to-date returns –*** Dow Jones Industrial Average -19.72%, S&P 500 -23.87%, NASDAQ 100 -32.35%, Russell 2000 -25.10%, MSCI EAFE TR USD Index -26.76%, S&P GSCI (Broad-Based Commodities) 21.80%, and BBgBarc U.S. Aggregate Bond Index -14.61%.

- **Interest Rates (As of September 23, 2022 – Average National Rates) –**

| | | | |
|---|---|---|---|
| Federal Funds Rate | 3.08% | 10-Year TIPS | 1.29% |
| 3-Month Treasury Bill | 3.19% | 10-Year Muni Bonds – Nat'l | 3.10% |
| 10-Year Treasury Note | 3.70% | 15-Year Mortgage Fixed | 5.44% |
| 30-Year Treasury Bond | 3.65% | 30-Year Mortgage Fixed | 6.29% |
| Savings | 0.17% | Money Market | 0.18% |
| 12-month CD | 0.60% | | |

*Sources: Federal Reserve, fms.bonds.com, Freddie Mac, FDIC*

- ***Northern Trust – Weekly Economic Commentary – September 30, 2022 –*** Our updated global economic forecast reflects our expectation that the United Kingdom and Europe will experience a recession in the coming quarters. But we have not yet concluded that the U.S. economy will enter a downturn. If a downturn comes, we expect it to be shallow and short. If a recession is avoided, American economic growth over the coming year may not be overly robust.

- ***Bureau of Economic Analysis – September 29, 2022 -*** Real Gross Domestic Product (GDP) – the value of goods and services produced by the nation's economy less the value of the goods and services used up in production decreased at an annual rate of 0.6% in the second quarter of 2022, according to the "third" estimate released by the Bureau. In the first quarter, real GDP increased 1.6%. Personal income increased 0.3% in August, which was the same as July.

- ***Bureau of Labor Statistics – September 13, 2022 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in August; the month of July reported 0.0%. Over the last 12 months, the all items index increased 8.3%, a smaller figure than the 8.5% increase for the period ending July. The energy index increased 23.8% for the 12 months ending August, a smaller increase than the 32.9% increase for the period ending July.

## ***C*raig's Thoughts and Views:**

### Third Quarter Performance Review

All four major indices posted negative returns for the third consecutive quarter. By market capitalization, small-cap stocks outperformed large-cap stocks for the first time this year, although the performance gap was modest. Small cap outperformance came mostly from gains early in the third quarter as markets broadly rallied on hopes of a quick decline in inflation and a sooner-than-expected Fed pivot. But as those hopes faded in late August and September and interest rates hit new highs, investors rotated back to the perceived safety of large-cap stocks diminishing the performance gap between small and large caps significantly.

From an investment style standpoint, both value and growth registered losses for the second straight quarter. However, unlike the first half of 2022, growth relatively outperformed value in the third quarter. Growth enjoyed a strong rebound early in the quarter, again as markets rallied on the hope of peak inflation and a Fed pivot that would signal a peak in interest rates. However, that growth outperformance shrank late in the quarter as inflation remained high and the Fed signaled there was no imminent end to the rate hiking cycle.

On a sector level, just one of the 11 S&P sectors finished the third quarter with a positive return. Consumer discretionary posted a positive return thanks to strong consumer spending and still-low unemployment. The energy sector, meanwhile, finished the quarter with a fractional loss as energy stocks benefitted from solid earnings and strength in natural gas prices. On a broader basis, traditionally defensive sectors relatively outperformed over the past three months, as investors positioned for slower future economic growth.

Sector laggards in the quarter included communication services, real estate, and materials. Communication services have lagged throughout 2022 as investors shunned expensively valued tech companies. Real estate, meanwhile, declined in the face of spiking mortgage rates and as home price appreciation began to slow. Lastly, the materials sector traded lower following earnings warnings from multiple chemical companies and a sharp drop in certain commodities prices in the third quarter.

Internationally, foreign markets underperformed U.S. markets during the third quarter, as surging electricity prices in Europe and the United Kingdom, interest rate hikes by the European Central Bank and Bank of England, and continuing geopolitical risk weighed heavily on foreign developed markets.

Commodities dropped sharply in the third quarter as a combination of a multi-decade high in the U.S. dollar, growing fears of a global recession, and sharply rising real interest rates weighed on industrial commodities as well as traditional safe haven like precious metals. Oil prices fell in the quarter as concerns about future demand offset geopolitically based worries about supply. Gold, meanwhile, logged solidly negative returns for the second straight quarter thanks to rapidly rising yields, the surging dollar, and fading market-based inflation expectations.

In the fixed-income markets, most bond indices posted solidly negative returns for the third straight quarter. Persistent elevated inflation continued Fed rate hikes, and a late-quarter selloff in global sovereign bonds saw most bond asset classes end the third quarter lower, extending the year-to-date declines. As has been the case all year, shorter-term Treasury Bills outperformed longer-duration Treasury Notes and Bonds as the threat of greater than previously expected Fed rate hikes and still-high inflation weighed on fixed income products with longer durations.

**Missing the Top Trading Days**

According to various research houses, MISSING A LITTLE in the market could cause you to MISS A LOT. Over the last 30 years (August 1,1992 to July 31, 2022), the S&P 500 gained +10% per year (total return). If you remove the best 22 trading days over the entire 3 decades (22 trading days out of 7,554 trading days), the return for the S&P 500 drops in half to +5.0% per year (total return). The S&P 500 consists of 500 stocks chosen for market size, liquidity, and industry group representation. If is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

J.P Morgan Asset Management's 2019 Retirement Guide shows the impact that pulling out of the market (S&P 500 index) has on a portfolio also. Looking back over the 20-year period from January 1, 1999 to December 31, 2018, if you missed the top 10 best days in the stock market, your overall return was cut in half. That is a big difference for only 10 days over two decades! According to J.P Morgan Asset Management, the annualized performance during that 20-year time period was 5.62%. If you missed the 10 best days, the annualized performance dropped to 2.01%, if you missed the 20 best days dropped the annualized performance to a -0.33%, if you missed the 30 best days the annualized performance was -2.35%, and if you missed the 40 best days the annualized performance was -4.2%.

Putnam Investments found similar results by studying the data from 2003 to 2018. If you were fully invested in the S&P 500, your annualized total return was 7.7% during that time period. However, if you missed the 10 best days in the market, it dropped to only 2.65%.

TD Ameritrade looked at the time period 2000-2019. Investors who stayed in the market for all 5,035 trading days achieved a compound annual return of 5.6%. However, that same investment would have returned 2.0% had it missed only the 10 best days of stock returns (represented by the Ibbotson Large Company Stock Index). Further, missing the 50 best days would have produced a loss of 5.9%.

As a reminder, returns and principal invested in stocks are not guaranteed, and stocks have been more volatile than other asset classes. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss.

**GSF&L, LLP Registered Investment Advisors:**

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course, it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one's financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

*Craig*

NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results. Diversification does not assure against market loss.