KADES & CHEIFETZ LLC

INVESTMENT OVERVIEW

for the quarter ending December 31, 2022

Equities in Review

The global equity markets started Q4 strong, peaked in mid-December, and surrendered a fraction of their quarterly gains in late December. The buying in the quarter was driven by value-oriented companies, while high P/E stocks such as Amazon and Tesla continued their decline to more traditional valuations. Foreign stocks outperformed domestic stocks as inflation seemed to peak in many countries and easing COVID restrictions in China boded well for global growth.

Higher yields in the debt markets—the yield on the 10-year US Treasury has more than doubled from 1.63% at the start of 2022 to 3.88% on December 31 – continues to provide investors with alternatives to equities in the form of higher yielding bonds.

Following are the quarterly, year-to-date, and 5-year average returns for the three equity indexes that we track:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
S&P 500	Large cap stocks	+ 7.6%	-18.1%	+ 9.4%
Russell 2000	Small cap stocks	+ 6.3%	-20.4%	+ 3.8%
MSCI World (excluding US)	Foreign stocks	+14.3%	-16.0%	+ 0.9%
Weighted Index Benchmark*	Diversified Equities	+ 8.7%	-18.1%	+ 6.6%

**The Index weighting is 60% S&P 500 Index, and 20% each Russell 2000 Index and MSCI World (excluding US) Index.*

Other Important Data

For the 12 months ending December 31, 2022, inflation as measured by the consumer price index (CPI) increased 6.5% compared to the prior 12 months. This increase represented a smaller increase than the 8.5% increase for the twelve months ending September 30, 2022 and was the smallest 12-month increase since October 2021. This data suggests the Federal Reserve's (the Fed's) aggressively rate hiking strategy is starting to have the desired effect of keeping inflation at bay.

The spread on the yield curve (the difference in yield between the 1-Year and 30-Year Treasury bond) has often been a reliable leading indicator of the likelihood of recession. During the fourth quarter, the spread fell to -0.76%. This "negative spread" represents an inversion of the yield curve which occurs when shorter-term bonds offer higher yields than longer-term bonds. This phenomenon has frequently preceded a recession, which has led many pundits to predict a recession is coming.

The spread on the yield curve at the end of the past six quarters (as shown in the list below) continues to trend in a negative direction. This is the result of investors locking in longer-term bonds at lower yields than shorter-term bonds while the Fed continues raising rates on the short end. We will continue watching both the Fed and longer-term yields, which are determined by market forces. At the time of this writing on January 27, the negative spread has

increased to (1.04%) as longer-term yields have fallen even further while shorter-term rates have remained stable.

- December 31, 2022 (0.76%)
- September 30, 2022 (0.26%)
- June 30, 2022 0.34%
- March 31, 2022 0.81%
- December 31, 2021 1.51%
- September 30, 2021 1.99%

Equities Looking Forward

Three months ago, we listed geopolitics and inflation as obstacles to finding a bullish catalyst for stocks while also mentioning markets can turn significantly from one direction to the other before the catalyst for the reversal of course is known or predicted by the pundits. To some extent, this is what happened in Q4 and has continued into the new year. A few better-than-expected inflation reports helped turn things around and we are now at a point where we are weighing the possibility of the Fed slowing down or stopping their rate hikes while still seeing headwinds from the war in Europe in the geopolitical arena. The inability to predict short-term market moves is why we avoid market timing.

The Q4 and January increase in equity prices, in conjunction with generally falling profits, have brought Price-to-Earnings (P/E) ratios to a point where on average stocks look fairly valued for long-term investors. However, within equities, value stocks have significantly out-performed growth stocks over the past 15 months or so to the extent that – and this sounds like an oxymoron – in many cases, we are now seeing more value in growth stocks than in value stocks.

Hybrid and Hedging Assets

We believe that the Managed Allocation Composite Hybrid Index offers the best benchmarks for hybrid and hedging assets. Returns are as follows:

INDEX	DESCRIPTION	Qtr.	Year-to-Date	5-Year Avg.
Managed Allocation Composite	Hybrid (bonds and stocks)	-6.6%	-14.2%	+4.3%

Since the hybrid assets we own in our portfolios invest in a combination of securities including, but not limited to, bonds and stocks, the hybrid assets typically produce returns close to the average of the bond and stock index returns. This is the case for the quarter and for the annualized returns of the past five years.

Hedging assets like commodities or alternative strategies generally move with little, zero, or negative correlation to the bond and stock markets. We believe hedging assets should play a role in diversified portfolios because over the long term, their limited or inverse correlation to bonds and stocks should reduce the volatility of overall portfolio returns.

Bonds in Review

During the quarter, easing inflation resulted in optimism that the Fed would slow the rate of interest rate hikes resulted in bond prices increasing (and thus their yields decreasing). Longer-term yields,

which are controlled by market forces (and not the Fed), declined with the yield on the 10-year U.S. Treasury hitting a high of 4.25% on October 24 and then dropping significantly to 3.37% by January 18. This is somewhat alarming and seems to indicate investors are bracing for a recession, given the manufacturing and housing data signaled both were pulling back sharply. However, payroll gains remain resilient, giving some food for thought that any impending recession fears are already priced into stock prices.

The quarterly and historical results for the bond indexes that we track are as follows:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Bloomberg US Universal	US Gov't and Corporate Issues	+2.2%	-13.0%	+0.2%
Bloomberg Municipal Bond	US Municipal Issues	+4.1%	- 8.9%	+1.3%
Bloomberg TIPS (0-5 Years)	Inflation Protected Gov't Issues	+ 1.3%	-2.7%	+2.6%
Weighted Index Benchmark*	Diversified Fixed Income	+2.4%	-10.1%	+0.9%

**The Index weighting is 60% US Universal and 20% each Bloomberg Municipal Bond and Bloomberg TIPS (0-5).*

Bonds Looking Forward

During 2022, the yield on the 10-Year US Treasury jumped from 1.63% to 3.88%. As we head into 2023 with yields at these levels (and a bit lower at the time of this writing), bonds remain attractive as traders and investors attempt to gauge or predict how much more the Fed will raise rates in the short-term, what the impact of those rate increases will be on the economy, and how quickly the Fed may have to reverse course and begin cutting rates if the economy goes into a recession as many pundits and the inverted yield curve predict.

We feel high quality bonds which mature in the next ten years are the best values in the current bond market.

Our Asset Allocation Philosophy

It is our philosophy that investors with long-term time horizons are best served by using a disciplined, diversified asset allocation approach (investing in bonds, hybrid and other hedging assets and stocks) rather than trying to time the markets. It is important to periodically review your asset allocation and your target allocation and to rebalance your assets among the classes to keep the allocation close to the target. We will address the issues specific to you when we review your situation in the coming months. In the interim, if you would like to discuss these issues, please contact us at howard@kadescheifetz.com or steve@kadescheifetz.com.

Reminders

Please contact Kades & Cheifetz LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Parts 2A and 2B of Form ADV and is available for your review upon request.

Kades & Cheifetz LLC has provided this overview for internal use and for use by our clients. We have prepared it using sources believed to be reliable. We do not guarantee the accuracy of the sources. We reserve the right to change our opinions (expressed above) without notice.

You should be receiving statements at least quarterly from your custodian. If you are not receiving these statements, or you need another copy of a statement, please call us and we will provide one to you. Clients are encouraged to review the information on the statements, especially the amount of fees deducted, and compare that information with any information provided by Kades & Cheifetz LLC. If there are any questions or discrepancies, please contact us as soon as possible.

Important Disclosure Information

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Kades & Cheifetz, LLC ("Kades & Cheifetz"), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Kades & Cheifetz.

*Additionally, please remember to contact Kades & Cheifetz, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing or evaluating or revising our previous recommendations and/or services, or if you want to impose, add, to modify any reasonable restrictions to our investment advisory services. Kades & Cheifetz shall continue to rely on the accuracy of information that you have provided. **Please Note:** unless you advise, in writing, to the contrary, we will assume that there are no restrictions on our services, other than to manage the account in accordance with your designated investment objective.*

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Kades & Cheifetz account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Kades & Cheifetz accounts; and, (3) a description of each comparative benchmark is available upon request.

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