KADES & CHEIFETZ LLC

INVESTMENT OVERVIEW

for the quarter ending December 31, 2021

Equities in Review

Stocks notched solid gains in the fourth quarter despite a November sell-off in response to the global spread of the Omicron variant of COVID-19.

Inflation worries persisted during the quarter as Federal Reserve Chair Jerome Powell noted he no longer thought it was appropriate to refer to inflation as "transitory." In November, the Fed took its first step toward tightening interest rates by cutting its monthly asset purchases in half and accelerated the pace of tapering in December. Policymakers now expect a median of three rate hikes in 2022, followed by five more hikes over the next two years.

The drumbeat of higher interest rates and their impact on stocks weighed on the market periodically throughout the quarter. Labor market disruptions and supply chain shortages also caused volatility during the quarter.

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

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
DJ Industrial Average	Large cap stocks	+7.9%	+20.9%	+15.5%
MSCI EAFE	Foreign stocks of developed nations	+2.4%	+11.3%	+9.6%
MSCI Emerging Markets	Foreign stocks of emerging nations	-2.4%	+3.8%	+7.3%
NASDAQ Composite	Growth-oriented large cap stocks	+8.5%	+22.2%	+25.0%
Russell 2000	Small cap stocks	-2.1%	+14.8%	+12.0%
S&P 500	Large cap stocks	+11.0%	+28.7%	+18.5%
Weighted Index Benchmark*	Diversified Equities	+5.9%	+18.8%	+15.9%

**The Index weighting is 20% each: DJ Industrial Average, Nasdaq Composite, S&P 500, and Russell 2000; and 10% each: MSCI EAFE and MSCI Emerging Markets.*

Other Important Data

For the twelve months ending December 31, 2021, inflation as measured by the CPI increased 7.0%, which suggests a persistence in the price increases that began earlier this year. This increase also represents the largest 12-month increase since the period ending June 1982.

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 narrowed to 1.51%. This spread, which is lower than the prior upward trend, is primarily driven by the Fed cutting short-term rates to near zero as one of the several steps taken to provide liquidity to the markets. The bond market seems to suggest investors are still willing to accept lower yields despite the prospects for higher inflation. We will be watching longer-term yields, which are determined by market forces, as the Fed begins to increase short-term interest rates this year.

The list below shows the spread on the yield curve at the end of the past five quarters. After a brief pause at the end of the second quarter, the ongoing trend of a widening yield curve continues to indicate a reduced risk of recession (but perhaps persisting inflation, which may cause the Federal Reserve to act).

- December 31, 2021 1.51%
- September 30, 2021 1.99%
- June 30, 2021 1.79%
- March 31, 2021 2.34%
- December 31, 2020 1.55%

Equities Looking Forward

With the strong move higher in domestic large cap stocks, while foreign stocks produced mixed results and small cap stocks fell, the equity markets headed into 2022 with a wide disparity of relative valuations. Large cap stocks, particularly the largest American companies, seemed overvalued, while the foreign and smaller cap stocks seemed more fairly valued.

One month into the year, equities are down across the board as inflation concerns and fears of higher interest rates led to more selling than buying. The selling in January 2022 has eliminated most of the excess valuation in large cap US stocks, making them much more fairly valued, and small cap stocks and foreign stocks now seem cheap.

With stocks more reasonably priced following the January selling, we are optimistic on equities for the long term. However, headwinds such as inflation, higher interest rates, domestic issues, and geopolitical concerns in multiple corners of the world have us thinking equities will continue experiencing significant volatility.

Hybrid and Hedging Assets

We believe that the Morningstar Moderate Risk Target Index offers the best benchmarks for hybrid and hedging assets. Returns are as follows:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Morningstar Moderate Risk	Hybrid (bonds and stocks)	+2.8%	+7.1%	+8.1%

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

Taxable bonds were flat in the quarter and municipal bonds fared okay, while TIPS, an inflation hedge, produced another strong quarter. The 10-Year US Treasury began and ended the fourth quarter with a yield of 1.52% before jumping to 1.87% on January 18 – its highest point since January 2020. While the current yield is still low by historical standards, investors will be keeping a close eye on this key indicator. With the Fed signaling the end of its Treasury purchase program, many financial pundits expect interest rates to continue to trend higher as the economic recovery continues.

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

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Barclays Municipal Bond	I-T US Municipality Issues	+0.8%	+1.7%	+4.5%
Barclays US Aggregate Bond	I-T US Gov't and Corporate Issues	+0.0%	-1.5%	+3.6%
Morningstar TIPS	Inflation Protected Gov't Issues	+2.1%	+5.8%	+5.2%
Average of the Indexes	Diversified Fixed Income	+1.0%	+2.0%	+4.4%

Bonds Looking Forward

The recent increase in bond yields (and corresponding drop in bond prices) has reduced the amount by which we currently feel bonds are overvalued, as we think yields in the 2% range seem appropriate when considering all factors.

In the short term, even overvalued assets can go higher. This is especially true of bonds if the move is in response to an economic event which brings about selling in the equity markets.

Bonds should have a place in all diversified portfolios to reduce volatility, preserve principal, and provide income.

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.

<u>Important Disclosure Information</u>

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. <u>Please Also Note</u>: (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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