SAM NEWS

4th Quarter 2022 Report
January 2023

Turbulent 2022

Stocks Decline, Bonds Suffer Worst Year Ever

Stocks began the year by reaching all-time highs in early January, then came the drumbeat of negative news and dour sentiment that continued throughout the year. The S&P 500 had declined 26% at its lowest point on October 12th, then staged a recovery in the 4th quarter to end down 18.1% for the year. Bonds, as measured by the Bloomberg U.S. Aggregate Bond Index notched a record annual loss of 13%. The Federal Reserve had the largest impact on both the bond and stock markets in 2022 with an unprecedented increase in interest rates from near zero to 4.5% with more rate increases planned into 2023. We anticipate a sustained moderation in inflation, which should provide the Fed with some breathing room going into the new year. We believe a Federal Reserve "pause" will occur sometime in the first part of the year with a possible "pivot" to lowering rates later in 2023. After a historically bad year, the odds are for stocks and bonds to rebound in 2023. Please read our SAM Outlook and SAM Strategy, on the following pages.

2022 INVESTMENT REPORT

For the first calendar year since 2018, the Standard & Poor's 500 Index ended in negative territory- down 18.1% . The thirty stock Dow Jones Industrial Average declined 6.9%, while the small-cap Russell 2000 lost 20.4%. The technology heavy Nasdaq Composite suffered the steepest losses of the major U.S. indices declining 33.1%. International stocks as measured by the MSCI EAFE Index made a strong recovery in the fourth quarter, finishing down 16.8%. Gold prices ended flat for the year despite being considered a safe haven in uncertain times as well as an inflation hedge. The price of crude oil finished the year 7% higher after rising 50% in 2021. Bonds, as measured by the Barclays Aggregate Bond Index notched their worst annual performance in history with a loss of 13%. Cryptocurrencies had a disastrous year with the evaporation of an estimated $2 trillion in value. Bitcoin, the flagship cryptocurrency, finished down 65%.

INVESTMENT INDICES

All numbers listed are total returns (including dividends) and are percentage gains or losses:

	2022	2021	2020	2019
Dow 30	-6.9%	20.9%	9.7%	25.3%
S&P 500	-18.1%	26.9%	18.4%	31.5%
Nasdaq Composite	-33.1%	21.4%	43.6%	35.2%
Russell 2000	-20.4%	14.8%	20.0%	25.5%
EAFE (Int'l stocks)	-16.8%	8.8%	5.4%	18.4%
Barclays Capital Aggregate (Bonds)	-13.0%	-1.5%	7.5%	8.7%

These are not the rates of return for SAM accounts, but are shown as a historical benchmark for various asset classes. SAM does not guarantee account performance. Accounts may lose value. Information taken from sources believed to be reliable, but its accuracy cannot be guaranteed.

REQUIRED DISCLOSURES

Sierra Asset Management's ***Privacy Notice***, ***Proxy Voting Policy Summary and CRS Summary*** are enclosed with this bulletin. If you have any questions, please contact us. During the 1st quarter of 2023, we will update our ***U.S. Securities & Exchange Commission Form ADV Part 2***. You may request a copy by calling or sending an email. Our most recent SEC filings are always available at www.sec.gov.

Life Changes?

Have you recently moved? Changed your phone number? Changed your email address? Gotten married? Added children? If so, please give us a call to get your accounts updated. Address, phone, email, beneficiaries should to be kept current. You can reach out to anyone one on our team at 877-658-5193.

1st Quarter Holidays

New Years, January 2nd (observed)
Martin Luther King Jr. Day, Jan 16th
Washington's Birthday, Feb 20th
Good Friday, April 7th

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SAM Outlook and Strategy on the following pages.

SAM OUTLOOK

Our outlook for 2023 is turning more positive for both stocks and bonds. Much of the uncertainty that we faced in 2022 is now behind us. The Federal Reserve should be pausing soon, the mid-term elections are over, supply chain issues are easing, corporate earnings have not fallen off a cliff, and stock prices (being a leading economic indicator) already reflect a recessionary environment. Of course there are always risks, but we are exiting one of the worst years for a traditional balanced portfolio (60% stocks, 40% bonds) in history. Back-to-back yearly losses in the stock market are rare and consecutive annual losses would be even more unlikely for bonds. The U.S. economy is extremely resilient and corporations have had great success at navigating every challenging economic environment that they have ever faced. We do not believe that it is somehow different this time.

While bear markets are never pleasant, it is important to remember that these periods of downward volatility are quite common, have historically been relatively brief compared to the much longer bull market periods, and are the price we all must pay for the excess returns that the stock market has historically generated over the long term. We all wish we could avoid these periods by selling out of and buying back stocks at just the right time, but because of the radical unpredictability of both the economy and the stock market, no one has ever been able to find any convincing evidence that supports the notion that an investor can consistently achieve this desired outcome. In fact, rigorous academic research supports the contrary position- that all equity investors are likely to experience multiple painful periods of portfolio price declines. Even Warren Buffett, widely considered to be the greatest investor of all time, has experienced at least three approximately 50% declines in his net worth. In summary, while the current bear market has resulted in significant market losses, it is our belief that if history is any guide, the highest prices are yet to come.

We think that the next 12 months are likely to see this cycle's peaks in global inflation, central bank policy tightening, core government bond yields and market volatility, as well as troughs in GDP growth, corporate earnings growth and global equity market valuations. In other words, the worst is likely behind us and the economic data could start turning decidedly more positive in 2023. Stocks could make a dramatic comeback from the 2022 losses. To keep 2022 in perspective, the declines experienced this year were from the all-time highs in the stock market that were set in early January.

As always, we thank you for your continued trust and patience, know that our family members and our own accounts are invested right alongside yours, and please always reach out to us if you have any questions, concerns, or would like to set a time to meet to review your portfolio.

SAM STRATEGY

We made more investment changes during 2022 than we have in previous calendar years. We made changes to our stock allocations throughout the year, but the majority of the changes were made in our bond holdings as we adjusted our portfolios for higher interest rates. There's an expression that the stock market is the only market where when the merchandise goes on sale, people run out of the store- not for our clients. These are the challenging times when we do our best to step in and purchase shares of great publicly traded companies or fixed income investments at lower prices and higher yields. With stocks still "on sale," and bonds yielding more than they have in 15 years, it is truly an opportune time to add new money to your existing Schwab accounts.

Throughout the year we also took advantage of tax-loss harvesting in our taxable accounts. This means that we sold portions of our stock and bond holdings at a loss deliberately for tax purposes and then immediately reinvested the proceeds in other securities. Any realized capital losses in taxable accounts can be used to offset realized capital gains and these losses can also be used to offset up to $3,000 in ordinary income. You will receive a 1099 composite from Charles Schwab in late February that details your reportable income and realized capital gains and losses for the year. Please be on the lookout for this important document and be sure to provide it to your CPA or tax preparer. Our purposeful tax-loss harvesting should provide some reprieve for our clients at tax time.

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SAM STRATEGY—continued

As we enter 2023, we believe that our client portfolios are very well positioned. Historically, the Federal Reserve overtightens which slows the economy too much and then the Federal Reserve has to reverse course and reduce interest rates. A reduction in interest rates could occur later in 2023. Chances of a "soft landing" or avoiding a recession completely in 2023 are narrowing. We would bet on a very mild recession in early-mid 2023, which may already be priced in to current stock prices. The stock market is a forward-looking, discounting mechanism and will turn higher before the data or sentiment change meaningfully. When, not if, the stock and bond markets change direction our portfolios will be poised to recover the 2022 losses and go on to set new high values.

2023 Retirement Account Contribution Limits Increased

The IRS periodically adjusts the limits on retirement plan contributions based on the cost of living. The limit on annual contributions to an IRA (traditional and ROTH) increased to $6,500, up from $6,000. The IRA catch-up contribution limit for individuals aged 50 and over remains $1,000 for a total of $7,500.

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to $22,500, up from $20,500. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to $7,500, up from $6,500. Therefore, participants in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan who are 50 and older can contribute up to $30,000, starting in 2023.

The amount individuals can contribute to their SIMPLE IRA retirement accounts is increased to $15,500, up from $14,000. The catch-up contribution limit for employees aged 50 and over who participate in SIMPLE plans is increased to $3,500, up from $3,000.

On December 29th, The Secure 2.0 Act was passed and signed into law. This legislation has a broad set of new rules for required minimum distributions, increased retirement contribution limits, new rules for 401(k) plans, changes to 529 provisions, etc. We will have a dedicated section in our first quarter newsletter which will cover the pertinent changes that affect our clients.

INTERESTING FACT

IT'S OFFICIAL – Social Security retirement benefits are getting the biggest boost in 40 years with an 8.7% increase! The maximum amount of a worker's pay subject to Social Security tax is also increasing, from $147,000 in 2022 to $160,200 in 2023. Increasing this threshold (e.g., to income above $250,000) has been proposed as one solution to the Social Security funding crisis (source: Social Security Administration).

We sincerely appreciate your continued trust and confidence. Sending new clients our way is the best possible compliment we can receive. If you know of someone who may benefit from our service, please do not keep us a secret. There is no cost to meet for an initial consultation.

IMPORTANT TAX INFORMATION

Schedule for Receiving Tax Preparation Forms

CHARLES SCHWAB 2022 FORM 1099 COMPOSITE AND YEAR-END SUMMARY for taxable brokerage accounts: Mid to Late February.

***CHARLES SCHWAB 2022 FORM* 1099-R** for distributions from IRA, SEP-IRA, Simple IRA, and Roth IRA accounts: mid to late January.

***CHARLES SCHWAB 2022 FORM* 5498** which reports your IRA contributions made by April 15, 2022: Mid to late May.

If any security sends updated information, Schwab will send a corrected Form 1099. While you may schedule your tax appointment earlier, please be sure to ask your CPA or tax preparer not to finalize your return preparation until March. Those clients who have limited partnership interests will typically not receive the partnership tax information until mid-March (as normal). While we may hold limited partnerships transferred in by clients, SAM does not invest in them.

SAM can still produce an estimate of gains/losses for tax planning purposes. ***SAM* cost basis estimates should be used for planning purposes only, and should <u>not</u> be used for tax return preparation. It will be very important to use the cost basis data reported by Schwab on the 1099 composite and year-end summary.** Your tax preparer or CPA will assist you with this important tax preparation issue. If you have any questions regarding cost basis, please give us a call at 658-5193 or toll-free 877-658-

"And I really do believe that the most important thing is the way you live your life on earth. But I think it's enormously comforting to believe that you're going to see your loved ones. "
— Barbara Walters