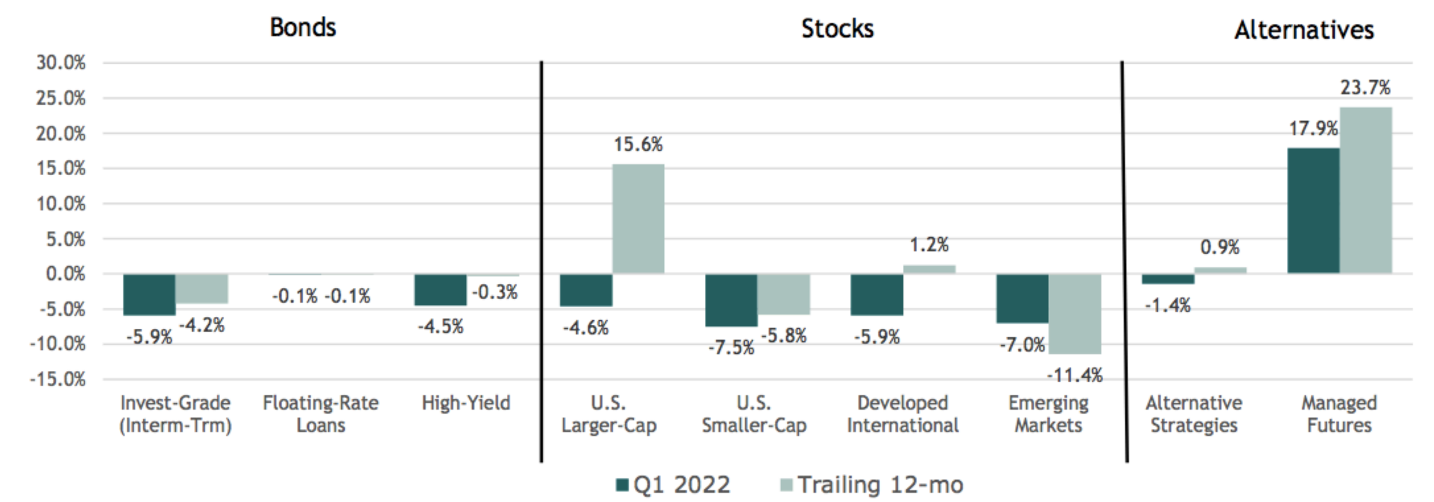
Investment Outlook and Portfolio Positioning **Quarter 2 - July 2022**

Market Recap: It has been a rough year, with equity markets down more than 20% and "low- risk" bond markets registering low double-digit losses. The S&P 500 dropped 16.1% for the quarter and is now down 20% for the year, after being down as much as 24% through mid-June.

Market Review



Core investment-grade bonds were pummeled again in the second quarter, with the benchmark Bloomberg U.S. Aggregate Bond Index dropping 4.7%. This puts the "safe-haven" Aggregate Bond Index down an incredible 10.3% for the year to date -- its worst first-half ever.

Consequently, we have taken a defensive approach to our portfolios. Different from past bear markets we have not been able to use bonds as a hedge against equity fluctuations. We have instead increased our cash positions (a good place to be if and when we find attractive equity purchases) and are shorting the S&P 500 by 7% with the ETF, SH: it is up 21.15%. We have also returned to our favorite gas utility fund from Hennessy Gas and Utility **GASFX** holding 8% in the portfolios; this fund is up 5.92% year to date.

Our equity positions are between 8% and 39% depending on risk profile.

In addition, we have increased our position in the two managed futures strategies we have used for 4 years plus from 4% to 14%. **ASFYX** is currently up 37.10% year to date and **PQTIX** is up 19.18% year to date. We like these alternative funds for three reasons:

1. **They are liquid.** Most managed futures and hedge funds restrict withdrawals; these funds do not.
2. **Investments and fund strategy.** Hedge funds can be difficult to understand. The underlying investments in both of these alternatives are clear. **PQTIX** takes advantage of pricing trends in global financial and commodity markets seeking profits from market moves in any direction. **ASFYX** has exposure to global equities, bond, currency, and commodities markets and is both long and short.
3. **Internal costs are low compared to peers.**

So where do we think this economy is going? Economists surveyed by The Wall Street Journal in June said they saw a 44% probability of a recession in the U.S. in the next 12 months with history showing the Fed has seldom been able to negotiate a **"soft landing"**, a scenario in which the Fed slows the economy enough to rein in inflation but avoids recession. Our best guess at this point is that if the U.S. economy does fall into a recession, it is likely to be a more "normal" type of cyclical recession rather than like the 2008-2009 financial crisis, the 2000-2022 dotcom bubble bust, or the 2020 COVID drawdown.

We are not in the business of making short-term predictions, but nonetheless believe it is prudent to be prepared for more downside for the stock market over the next several months or quarters. If that happens, we are more likely to be buyers rather than sellers. On the other hand, if the economy avoids recession (for now) and the markets rebound, we are well positioned to benefit with our commitment to holding our current stock positions.

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Given the sharp stock and bond market declines we have already experienced this year, this leads us to a positive 5-year (medium term) outlook for financial markets and asset class returns. We hold steadfast to the strategy of being invested in order to take full advantage of the equity markets when they become bullish. Our goal is not only to recoup any drawdown but to profit from the rising equity markets and to this end, we are looking forward for opportunities always with each investors risk tolerance in mind.

Asset Class Return Estimates Over Next Five Years

Equity Asset Classes			
	Downside	**BASE**	Upside
U.S. Larger Cap	-3.9%	**2.9% - 7.7%**	12.1%
Developed International – Europe	-3.9%	**11.4%**	18.2%
Emerging Markets	-3.1%	**12.2%**	20.5%

Fixed-Income Asset Classes			
	Downside	**BASE**	Upside
Investment-Grade Bonds	4.1%	**3.7%**	3.4%
High-Yield Bonds	4.0%	**4.4%**	4.8%
Floating-Rate Loans	4.4%	**4.1%**	5.1%

Alternative Asset Classes			
	Downside	**BASE**	Upside
Arbitrage Strategies		Mid-single digit returns in most scenarios	
Managed Futures		Long-term Sharpe ratios expected to be 0.3 to 0.5	

Sincerely,

Deborah Wiggin